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PRESIDENT'S MANAGEMENT LEGISLATIVE INITIATIVES

COMPLETED 207

of 181

HEARING

BEFORE THE

COMMITTEE ON GOVERNMENTAL AFFAIRS UNITED STATES SENATE

NINETY-NINTH CONGRESS

SECOND SESSION

ON

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FEBRUARY 26, 1986

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CONTENTS

Page

- Opening statements:
  - Senator Roth 1
  - Senator Eagleton 3
  - Senator Chiles 4
  - Senator Gore 22

WITNESSES

Wednesday, February 26, 1986

- James C. Miller III, Director, Office of Management and Budget, accompanied by Joseph R. Wright, Jr., Deputy Director, and Carol Dineen, Associate Director for Management, OMB 7
- Charles A. Bowsher, Comptroller General of the United States, accompanied by William J. Anderson, Director, General Government Division, and Frederick D. Wolf, Director, Accounting and Financial Management Division 23

Alphabetical List of Witnesses

- Anderson, William J.: Testimony 23
- Bowsher, Charles A.:
  - Testimony 23
  - Attachments I, II, and III 108
- Miller, James C., III.: Testimony 7

ADDITIONAL MATERIAL SUBMITTED FOR THE RECORD

- Comments submitted from the Office of Management and Budget 33
- Responses to written questions from James C. Miller III, Director, Office of Management and Budget, submitted by:
  - Senator Roth 41
  - Senator Eagleton 64
  - Senator Gore 68
  - Senator Cohen 72
- Management of the U.S. Government—Fiscal Year 1987—The President's Management Message 81
- Executive Order No. 12552, February 25, 1986, Productivity Improvement Program for the Federal Government 87
- Office of Management and Budget Bulletin No. 86-8, Productivity Improvement Program for the Federal Government 90
- Responses to written questions from Charles A. Bowsher, Comptroller General of the United States, submitted by:
  - Senator Roth 133
  - Senator Cohen 158
- Strong Leadership Needed To Improve Management At The Department of Labor—Report to the Congress—General Accounting Office, executive summary 161
- Letters to:
  - Hon. William E. Brock III, Secretary, Department of Labor, from Senators William V. Roth, Jr., and William S. Cohen, dated November 13, 1985 167
  - Hon. William V. Roth, Jr., chairman, Committee on Governmental Affairs, from William E. Brock III, Secretary, Department of Labor, dated December 12, 1985, with attachment 169

Page
Office of Management and Budget: Evolving Roles and Future Issues—An Overview by the Committee Staff 182
Management, Security, and Congressional Oversight—Office of Technology Assessment Summary 194

PRESIDENT'S MANAGEMENT LEGISLATIVE INITIATIVES

WEDNESDAY, FEBRUARY 26, 1986

U.S. SENATE,
COMMITTEE ON GOVERNMENTAL AFFAIRS,
Washington, DC.

The committee met at 10:06 a.m., in room SD-342, Dirksen Senate Office Building, Hon. William V. Roth, Jr. (chairman of the committee) presiding.

Members present: Senators Roth, Eagleton, Chiles, and Gore.

OPENING STATEMENT OF SENATOR ROTH

Chairman ROTH. The committee will please be in order.

We are convening today to hear testimony from the Director of OMB and the Comptroller General. In addition, I am taking this opportunity to announce the release of two major studies performed at my request: First, a Congressional Research Service study entitled "Office of Management and Budget: Evolving Roles and Future Issues." [1]

Second, an Office of Technology Assessment study on the "Management, Security and Congressional Oversight of Information Technology in the Federal Government." [2]

I view this hearing today as a significant occasion and a unique opportunity. For the first time in recent memory, the committee will consider a comprehensive package of legislation proposed by the President to improve the management and performance of Government.

I share the President's desire to redouble our efforts to improve Government operations, and toward this end, I have introduced a joint resolution establishing productivity improvement in the Federal Government as a national goal.

We will also be considering a number of other bills. Prominent among them is S. 2004, the Government Management Report Act. This bill seeks to strike a balance between keeping reporting requirements as simple and flexible as possible, but assuring that the information provided will be useful to Congress in effectively overseeing executive branch management improvement activities.

S. 2005, a bill which would amend the Inspector General Act of 1978 includes provisions designed to extend the benefits of the inspector general concept to smaller agencies. Strong internal audit is especially needed at smaller agencies, because too often, their operations are not closely watched by Congress or the press and public. And in the absence of an independent internal audit unit, there is greater risk that serious problems and deficiencies will not be reported to the agency head and no assurance such problems will become known outside the agency.

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[1] See p. 182 for summary. For sale at Government Printing Office, S. Prt. 99-134.

[2] See p. 194 for summary. For sale at Government Printing Office.

Regarding the Government's field offices, the President's management report submitted with this year's budget notes that a major objective of the President's management improvement program is to ensure that, "the massive Federal field structure properly is organized and managed to deliver effective services."

I support that goal. But I am also concerned that there be an appropriate balance between agency headquarters, regional and field offices. To further reduce the cost of Government and improve its efficiency, we need to streamline and consolidate Federal operations. This should be accomplished in such a way as to preserve essential services in the field where the people need them. Therefore, we should look first at headquarters and regional offices.

In addition, Congress needs to be made part of the planning process.

During the confirmation process last year, Jim Miller assured this committee that he would insist that Congress be informed of all streamlining actions. It is in this spirit that we take this legislation up today.

I have a more complete statement. Without objection, I will ask that it be included as if read.

[Prepared statement of Senator Roth follows:]

PREPARED STATEMENT OF SENATOR WILLIAM V. ROTH, JR.

The Committee on Governmental Affairs is convening today to hear testimony from the Director, Office of Management and Budget, and the Comptroller General of the United States on a series of bills called the President's Management Legislative Initiatives, and a number of bills on related subjects. In addition, I am taking this opportunity to announce the release of two major studies performed at my request:

First, a Congressional Research Service study entitled: "Office of Management and Budget: Evolving Roles and Future Issues." This will be a comprehensive resource document for the committee and the Congress. It contains two papers on the budget and management processes, plus nine case studies on various other aspects of OMB operations. Never before have we compiled in one place a series of scholarly papers which describe and analyze so many of OMB's functions.

Second, an Office of Technology Assessment study on the "Management, Security, and Congressional Oversight of Information Technology in the Federal Government." This is the second in a series of three OTA reports on information technology. The first report on electronic surveillance and civil liberties was published in October 1985, and a third report on electronic record systems and individual privacy is scheduled for publication in a few weeks.

I view this hearing today as a significant occasion and a unique opportunity. For the first time in recent memory, the Committee will consider a comprehensive package of legislation, proposed by the President, to improve the management and performance of Government. Last July, the President said:

"The American people want and deserve a Federal Government that is fair, efficient, effective, and, above all, productive."

I share the President's desire to redouble our efforts to improve the operations of Government. Toward this end, I introduced a joint resolution establishing productivity improvement in the Federal Government as a nationl goal. I understand the President will soon issue an executive order mandating a Governmentwide productivity improvement effort designed to improve productivity by 20 percent by 1992 in selected high-priority functions.

Other legislation requested by the administration would modify existing laws to reduce costs and improve efficiency in certain operations, streamline our procurement processes, and reduce regulatory and paperwork burdens. I support the overall intent of these bills and believe they deserve careful consideration by this committee.

We will also be considering a number of other bills impacting on Government operations. Prominent among these is S. 2004, the Government Management Report Act, which I introduced last month. This bill would require the President to submit an annual report, with his budget, on the major activities undertaken and planned to improve the management of the executive branch.

I believe this legislation is necessary to ensure that the Congress is fully and currently informed about administration plans and activities designed to ensure that our Federal programs are managed effectively and that every taxpayer's dollar is put to its maximum and appropriate use.

This bill strikes a balance between keeping the reporting requirements as simple and flexible as possible and assuring that the information provided will be useful to Congress in effectively overseeing executive branch management improvement activities. It also assures that the President's report will cover all management activities and present a balanced summary of both the problems and accomplishments in management.

S. 2005, A bill which would amend the Inspector General Act of 1978, includes provisions requested by the administration to standardize inspector general authorizing legislation and make other technical and administrative changes to the 1978 act.

The bill goes one step further, however. To strengthen internal audits and investigations in small Federal agencies which have such units, I have included provisions designed to extend the benefits of the inspector general concept to smaller Federal executive agencies, regulatory boards and commissions, and Government corporations which do not have statutory IG's.

Strong internal audit is especially needed at smaller agencies because their operations usually are not closely watched by Congress, the press or the public. In the absence of an independent internal audit unit, there is greater risk that serious problems and deficiencies will not be reported to the agency head and no assurance such problems will become known outside the agency.

Finally, we will be considering legislation designed to keep the Congress better informed of proposed Federal field office closings and consolidations. The President's management report submitted with this year's budget notes that a major objective of the President's management improvement program is to ensure that, "the massive Federal field structure is properly organized and managed to effectively deliver services."

I certainly support this goal. But I am also concerned that there be an appropriate balance between agency headquarters, regional, and field staffs. To further reduce the cost of Government and improve its efficiency, we need to streamline and consolidate Federal operations. This should be accomplished in such a way as to preserve essential services in the field where the people need them. Therefore, we should look first at headquarters and regional offices. In addition, Congress needs to be made part of the planning process. During his confirmation process last year, Jim Miller assured this committee that he would insist that Congress be informed of all streamlining actions. It is in this spirit that we take up this legislation today.

We are pleased to have as witnesses the two Government officials who have more to say about management than almost anyone—the Director of OMB and the Comptroller General. In addition to presenting testimony on the bills, I have invited Mr. Miller to provide the committee with his perspectives on Government management and his plans for the coming months to improve our management systems and organization. I have also invited Mr. Bowsher to present his perspectives on the present state of our Government management systems and organization, and what additional actions, if any, are indicated to bring about needed improvements.

Chairman Roth. At this time, I am pleased to call on my good friend and colleague, Senator Eagleton.

OPENING STATEMENT OF SENATOR EAGLETON

Senator Eagleton. Thank you, Mr. Chairman.

I would like to commend you for scheduling this hearing in order to focus attention on legislation to make improvements in the management of the Federal Government. This is an area that forms the guts of this committee's jurisdiction, or ought to. I am pleased that we appear to have a full plate of legislation in this area this year. I think we can look forward to early agreement on several of the bills that are before the committee.

You will recall, Mr. Chairman, that when Congress and this committee, in particular, considered the Inspector General Act back in 1978, that landmark piece of legislation, which is now in place, was not a very popular idea with either the agencies involved or the Carter administration.

Now, it is no exaggeration to say that everyone loves the inspectors general, and for a very good reason. Statutory inspectors general have produced and continue to produce results.

OMB's current management report tells us that the inspectors general are responsible for "over $63 billion in improved use of funds and 14,291 successful prosecutions and 14,146 administrative actions".

That is all since 1981 against those who have taken advantage of the Government. One of the bills before us today would extend the concept of the statutory authority and the independence embodied in the Inspector General Act to some 40 smaller governmental entities, and that is an idea that I strongly support.

The committee has taken several other notable steps in the last few years against the terrible triumvirate of waste, fraud, and abuse, including such things as the Prompt Payment Act, the Debt Collection Act, and the Federal Managers' Financial Integrity Act.

It is my understanding that Comptroller General Bowsher will testify that his priority in improving Government management lies in the comprehensive reform of the Government's financial management system. It seems to me that OMB could take a giant step in that direction by more fully implementing the Federal Managers Financial Integrity Act of 1982.

A series of GAO reports, aided by reports compiled under the Financial Integrity Act, has documented the terrible shape of financial management systems governmentwide. GAO reports that 53 percent of the Government's accounting systems are not in conformance or not known to be in conformance with the Comptroller General's auditing standards. Yet OMB continues to drag its feet on using the significant tool given to it by Congress.

I hope that Dr. Miller can offer us some reassurance on that score. Mr. Chairman, as we continue to search every nook and cranny of the Federal Government for ways to reduce the deficit, I believe the next round of management improvement has the potential to be as important as that step that we took back in 1978, and I commend you for grouping these 11 management initiatives and thereby allowing the committee to look at this area as a whole rather than in a piecemeal fashion.

Finally, and incidentally, Mr. Chairman, I would like to make mention of one other matter. At 8:45 this morning the minority staff was handed a large committee print on OMB prepared by the Congressional Research Service of the Library of Congress over a period of months. This work was done without my knowledge and without the knowledge of the minority staff of the committee. At first glance, it appears to be a most useful work, but perhaps it would have been a bit more useful if minority members of the Committee might have been notified of its existence and given an opportunity to study it.

Thank you, Mr. Chairman.

Chairman ROTH. Thank you, Senator Eagleton.

I apologize if the minority side was not involved in that. I feel that is important that those be done in a bipartisan way. I am sure it was oversight on our side.

Senator Chiles?

OPENING STATEMENT OF SENATOR CHILES

Senator CHILES. Thank you, Mr. Chairman. I wanted to applaud your initiative in holding these hearings. Today's focus on management issues in the Federal Government is certainly an important one. Even relatively small efficiency steps applied throughout Government can amount to billion dollar savings, and in the contemporary environment of huge budget deficits, it is critical that we mount an effort to be more productive. Each of the billion dollar savings that we can squeeze out is certainly worth working for.

Second, the idea that the committee will hold annual oversight hearings on major management activities is certainly a good one, and I applaud that. I support the plan that we are setting a precedent today for hearings by this committee on the state of management in the Federal Government annually.

In that regard, you can add me as a cosponsor to your S. 2004, the Management Report bill. I commend the Comptroller General and the Director of OMB for their willingness to participate in this morning's hearings. It is worth recalling that both these offices were established by the same law, the Budget and Accounting Act of 1921. What motivated that earlier Congress was the belief that these two agencies could bring about more economy and efficiency in Government.

If today's hearings amount to a watering of those roots, let's hope that we can at least start a dialog between parties that everyone could expect will occur regularly every year.

My experience has been that it takes both sustained attention over time to a particular management issue and a bipartisan consensus and partnership between the Congress and the executive to accomplish any kind of meaningful management improvements. My experience has also been that the Comptroller General is a significant actor in any successful initiative.

These hearings present an opportunity to build on that kind of working relationship.

I look forward to working with you, Mr. Chairman, on the several bills the President has put forth as management initiatives. I do want to make an observation that amounts to a reservation. This is a field this committee has toiled in for many years. I can't help but reflect that trying to strengthen the "M" in OMB has been a kind of preoccupation of mine during my career in the Senate. There have been few hits, like the passage of the Paperwork Act, but a bunch of strikeouts.

As you well know, this work can be frustrating. I am not the only one around here that has wondered frequently where the "M" in OMB is.

For example, the chairman and I were the original sponsors of the law which established the Office of Federal Procurement Policy in OMB. Recently, Senators Cohen and Levin have been instrumental in reauthorizing that office. That was a key recommendation of the Procurement Commission and a major management initiative that grew out of work started here by Scoop Jackson.

One reason that the thinking behind that office is even more valid today than then, is that Government contracting is now a $170 billion a year policy concern.

So we need hardly mention the hammers and the toilet seats and the other instances of contract mismanagement which are eroding taxpayer confidence. A serious effort to eliminate and prevent those scandals would not overlook the opportunity a strong Administrator of OFPP presents.

Yet, we still don't have a nominee. Mr. Miller has continued to tell me of his concern in that regard, and recently tells me he is working on a selection, but we don't have that nominee yet. What we do have from the President is a new legislative proposal for procurement initiatives.

That is what a couple of bills before us this morning are all about. To my way of thinking, that is putting the cart before the horse; it sends the wrong signal. The bills before us embody a list of management initiatives in which the administration is soliciting our enthusiasm. If we are going to have a partnership, we need a recognition that we are talking about a two-way street. If the dialog we start today is one way, it won't last very long or go very far.

Mr. Miller's appearance is one step in the right direction. I hope you won't tell us about any failures to communicate.

Thank you.

Chairman ROTH. Thank you, Lawton. I would like to acknowledge the leadership role you have played in this area.

I think what Senator Eagleton and Senator Chiles stated is also one of my concerns, Jim, and that is that management, because of the pressure of other problems, has taken a back seat. It is also an area where it is very difficult to get your hands on, so to speak.

Nevertheless, I think in our efforts to make Government both more effective and more cost conscious, it is long overdue that we begin to take some meaningful steps in trying to improve the management of this Government.

So I look forward to hearing you. I want to say I greatly appreciate your being here today, and we hope that this is the beginning of a meaningful discussion.

Please proceed.

TESTIMONY OF JAMES C. MILLER III, DIRECTOR, OFFICE OF MANAGEMENT AND BUDGET, ACCOMPANIED BY JOSEPH R. WRIGHT, JR., DEPUTY DIRECTOR, OMB, CAROL DINEEN, ASSOCIATE DIRECTOR FOR MANAGEMENT, OMB

Mr. MILLER. Thank you, Mr. Chairman and members of the committee. It is a pleasure to appear before you today to discuss the administration's program to improve the quality of Government management. I want to express my sincere interest in working closely with you toward meeting the goal I believe we all share, and that is, good government at reasonable cost.

Also, I would like to state before this committee, before Senator Chiles in particular, that the 'M' is alive and well at OMB.

This morning, I would like to present an overview of ongoing management reform efforts. In my judgment, they have been impressive and show that results are possible in this area if there is a will and a way. And I will describe momentarily, that working together, we have accomplished quite a lot.

But more is needed. We in the administration need to redouble our efforts to deliver to taxpayers all the government they are paying for. Congress also needs to do its part in facilitating our work and meeting taxpayer expectations.

Now, when President Reagan first came into office, he recognized serious and longstanding problems in the management of the executive branch of our Government. Financial systems were outdated and inefficient. Substantial revenues were lost due to poor cash management and almost nonexistent systems for collecting loans once they were made. Administrative systems, such as payroll and personnel, were outmoded, incompatible and costly to operate, and there were no Government-wide management information systems for policy and program administration.

In short, on the whole, Government management was antiquated and inefficient.

To address these and other problems, in 1982, President Reagan initiated a Management Improvement Program known as Reform 1988. In doing so, he accepted the challenge of modernizing a government that, in many respects, relied on processes and technology more appropriate to the 1960's than the 1980's. The initial Reform 1988 efforts were focused on areas which promised high payoffs relatively quickly, reducing waste, fraud and abuse; eliminating unnecessary publications; revising travel procedures to reduce costs; and improving administrative and financial functions.

Administrative service units were consolidated; cross-servicing agreements between agencies were negotiated; and work was begun on developing generic administrative systems to be used across Government. In the financial area, cash and debt management practices were tightened, and work was begun to reduce the number of accounting systems.

Reform 1988 appears to be off to a good start. Let me highlight just a few of our major accomplishments.

First, we installed the first major comprehensive system to manage the Government's $1 trillion annual cash flow. One result is that 99 percent of all payments to firms doing business with the Government are now paid on time. Previously, 30 percent were paid late, and 45 percent were paid too early. Also, agencies provide funds to grantees only when needed. They deposit collections immediately, and they use a number of sophisticated banking systems which minimize the interest we pay and maximize the interest we collect.

Second, credit management was improved by the use of effective prescreening and collection techniques, such as turning over more than 2 million accounts to private credit bureaus; using private collection firms for delinquent debt; and withholding Federal salaries as well as tax refunds to satisfy delinquent debts.

Third, Federal agency reports under the Federal Managers' Financial Integrity Act identified hundreds of material weaknesses in internal controls. Nearly half of these problems have been corrected, and the remainder will be corrected in the near future.

Fourth, one quarter of all Federal publications were eliminated, a saving of some 120 million unnecessary copies annually.

Fifth, a governmentwide travel management system was installed using private sector travel agents and a private sector credit card for advances.

Sixth, the President's Council on Integrity and Efficiency reported over $63 billion in improved use of funds, as mentioned earlier, and the President's Council on Management Improvement oversaw and monitored management improvement.

Seventh, in accordance with President Reagan's Executive Order 12352, all 50 of the major procuring agencies established the position of senior procurement executive and are upgrading their procurement processes. Furthermore, we proposed a simplified procurement process to reduce process time substantially.

And eighth, audits and audit followup were streamlined to eliminate duplication and overlap, pursuant to our goal of resolving all audit recommendations within 6 months.

Congressional action provided valuable new tools to help accomplish some of these objectives. Significant among these actions were the Federal Managers' Financial Integrity Act; the Debt Collection Act; the Prompt Payment Act; the Single Audit Act, and the Deficit Reduction Act.

To ensure continued reform and to make certain that gains once achieved are not lost, we have set in place at OMB a process of ongoing annual management reviews that work in tandem with our budget reviews. That is, just as the agency budget requests are viewed and scrutinized, agency plans and progress in achieving management improvements are also examined on a continuing basis. The management review process has been operating successfully since 1983, and the results are reported in our annual management report.

Now that we have in place a mechanism for embedding management reform throughout the executive branch, Reform 1988 will focus on extending our initial successes to a broader range of services that the Government provides to the public. But to accomplish the changes envisioned, we will need your continued support.

Today, we could discuss any of the thousand or so projects that make up Reform 1988, but I would like to highlight two major initiatives which we expect to yield the most significant in near-term benefits. First, credit management reform; and second, productivity improvement.

At the end of 1985, the Federal Government held $257 billion in its loan portfolio, of which $24 billion was delinquent. The Government had guaranteed directly another $410 billion and Government-sponsored enterprises lent an additional $370 billion. Thus directly or indirectly, the Government has influenced the allocation of credit worth some $1 trillion. Improving the management of Federal credit programs and receivables has been one of the administration's top management priorities and has proven to be one of its greatest challenges.

The first and most pressing needs the administration addressed were: (a) Stressing that credit management is a top priority, not just loan disbursement; (b) establishing exacting standards covering every aspect of credit management; (c) getting proven private-sector tools in the hands of agencies to help them manage their receivables; and (d) then using the private sector to collect debts where applicable. These efforts were greatly assisted by the passage of the Debt Collection Act of 1982.

Tangible progress has been made on this matter during the past 2 years. For example, the rate of growth in delinquent receivables has been cut more than 50 percent since 1982, from 44 percent last year down to 19 percent. But much still has to be done to reduce delinquencies to an acceptable level.

Through 1986, the administration will focus on setting specific targets for loan portfolios. Program managers will be asked to set targets for reducing loan losses, delinquencies and defaults, and for improving their collection rates. The most immediate priority is to clean up $24 billion in delinquent receivables: By greater use of collection agencies, by more aggressive litigation efforts and, by offsetting IRS refunds and garnishing Federal employee wages, and, if necessary by writing off uncollectable debt.

And of course, the longer term goal of making loans to more qualified borrowers will be advanced by prescreening all loans before they are made.

During 1985, legislation was proposed to provide the Attorney General the authority to contract with private counsel to litigate debt collection cases. We believe this authority would do much to decrease the backlog of uncollected debts.

The Comprehensive Credit Management Program put forth in fiscal year 1987 in our budget and in our management report outlines a variety of initiatives including:

First, prescreening all loans to individuals and businesses before they are made;

Second, converting from direct to guaranteed loans as much as possible to reduce Government exposure and competition with the private sector;

Third, increasing interest rates, loan guarantee fees, administrative costs and penalty costs in order to achieve financial standards more consistent with responsible business practice;

Fourth, increasing rates charged by the Federal Financing Bank;

Fifth, authorizing the Federal Financing Bank to charge a fee to its borrowers and to Government-sponsored enterprises in order to put them more on a par with the private sector;

Sixth, automating collection systems governmentwide;

Seventh, reporting all seriously delinquent accounts to credit bureaus. Through fiscal year 1985, some 2.2 million delinquent accounts with unpaid balances of $76.7 billion had been referred. And we expect an additional 2.6 million accounts to be referred by the end of this fiscal year;

Eighth, selling selected portfolios, a 5-year pilot project which, in fiscal year 1987, will sell about $4.4 billion for 13 Federal loan programs;

Ninth, offsetting IRS refunds to some 750,000 accounts valued at $1.6 billion; and

Last, possibly creating a Federal credit agency to oversee all of these efforts.

Our objectives are to put rigor into Federal credit practices and to make Government loans only in areas where Federal responsibility is clear.

I would like to turn now to another major Reform 1988 initiative, productivity improvement. The private goal of the administration is to improve the quality, timeliness and efficiency with which Government services are delivered to the public. To realize the maximum value from each dollar spent, Government can and must, like the private sector, become more productive.

In his message to Congress last year, the President announced a program to improve Government productivity in selected functions for some 20 percent by 1992. Just yesterday, the President signed an Executive order implementing the specifics of this program, but I am compelled to stress that a key element of the President's program is support from Congress. In this regard, Mr. Chairman, we all appreciate your sponsorship of Senate Joint Resolution 190, establishing productivity as a high priority for the Federal Government.

Our overall goal is challenging but attainable, and the potential benefits are enormous. For example, the General Accounting Office has estimated that for every 1 percent increase in productivity, $1 billion can be saved. The Grace Commission made similar estimates. Whether or not these estimates are precisely correct is beside the point. We all know the stakes are very large. Opportunities for improving productivity and documenting the gains we have would seem to abound, since over two-thirds of the Federal work force handles paper or information flows, where it would seem possible to measure performance rather readily.

To begin meeting the President's productivity improvements goals, agencies will address three or four areas of opportunity which promise significant payoffs, those which are measurable, and which involve service delivery.

These approaches will be developed in consultation with OMB during this year's management reviews and will be incorporated in next year's budget. They will be described in our management report to Congress. As agencies gain experience with their productivity improvement programs, agencies will expand into other functions under OMB guidance. Over time, we expect agency attention to management improvement, including productivity, to become as integral a part of their decisionmaking process as developing a budget.

Mr. Chairman and members of the committee, as I said earlier, to achieve all that we can in the management area, we need your help. Specifically, the legislative proposals before this committee and other committees are all extremely important to our success. Collectively, they are needed to enable us to improve management practices by streamlining contracting procedures, strengthening our ability to combat fraud and waste, and increasing our flexibility to manage Government programs in the most effective manner.

Detailed comments on each of these proposals will be provided shortly for the record.

Let me conclude, Mr. Chairman, by assuring you of my sincere interest in working with this committee.

As the President stated in his recent management message, the pressing need to reduce Federal spending, and hence the deficit, lends impetus to the improvement of management. You know, it is a priority that we share, and it is a legacy to all future generations, a central government that is well managed for the good of our Nation.

Mr. Chairman and members of the committee, that completes my statement. I shall be happy now to address any questions you might have.[1]

Chairman ROTH. Thank you very much for your fine statement, Mr. Miller.

We will limit questions to 10 minutes. I would ask that you let us know when 7½ minutes have expired so that we are aware of where we are. We will also use the early bird rule.

Mr. Miller, let me start out by saying I know you have only been been on the job briefly and because of that, you have probably not had the opportunity to get as involved personally as you would like. Second, much of what is going on at OMB took place prior to your assuming your current responsibility.

One of my concerns is that many of our mainstream Federal agencies that were often thought to be well managed seemed to be running into a lot of difficulty. Certainly, the Space Agency is one leading example of that.

Mr. MILLER. Yes.

Chairman ROTH. Frankly, we in Delaware have been extraordinarily unhappy with the IRS and its ineptness in handling returns last year. I have never had the people so unhappy. We have had a lot of problems in the Defense Department, at Social Security, and at the Veterans' Administration.

I wonder, what is OMB's role in these situations? How do you anticipate your organization getting involved with these kind of management problems, if at all?

Mr. MILLER. I think what you have identified in some areas, NASA, IRS—let me be careful. I don't want to prejudge the Rogers Commission on this—there may not be generic flaws in the decisionmaking process. I don't know for sure, and again, I am not privy to what the Commission knows. They will make their report on this matter.

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[1] Attachment submitted by Mr. Miller is on p. 33.

In the case of the IRS, I think we have identified that there was a problem. We have asked for a supplemental so that we don't have the kind of backlog and the stacking of returns in bathrooms and that sort of thing that we had last year.

Mr. Egger is well aware of the problem and has worked mightily to resolve it, and I think this year, we have met the challenge and overcome it. In the defense area, again, I don't want to prejudge the Packard Commission reports. Mr. Packard will brief me, in fact, late this afternoon on the results of their inquiry. I look forward to receiving that, as does the Secretary of Defense, and moving forward to adopt any improvements that they can identify and recommend.

I think eternal vigilance is always a watchword in the management area. We need to have a readiness plan where we can move quickly to deal with bottlenecks that occur. We need to constantly reassess what we are doing to make sure that generically, we have done a good job.

I am not going to sit here and, for a moment, suggest to you everything is perfect; it surely isn't. I am constantly probing and urging my associates at OMB to look deeper into these areas, and they are. We do not intend to micromanage the agencies, but I think OMB can be a terrific catalyst to organize and to synthesize and to ensure cooperation among the agencies to improve their management.

I want to indicate to you also the President's enthusiasm about the productivity improvement program and the management report effort itself.

I will tell you that before the budget was released and the management report was released, the President and I discussed the management report itself, and especially his own part of the management report, the personal message from the President. And in a luncheon that I and several people attended with him, he brought this up and indicated how important he thought that the measures that we had already taken had been to the success of the Federal Government under his leadership. He said that he was committed to making the additional changes that were identified in this management report.

Just yesterday, as I mentioned in my testimony, we had an expanded Domestic Policy Council Meeting which essentially involves all the Cabinet members, plus some other agency heads, with the President. I made a presentation on management in general, and, in particular, focused on productivity improvement. Then the President met with the President's Council on Management Improvement, which is, of course, the Assistant Secretaries for Administration, and signed the Executive order for productivity improvement. He stressed his commitment to achieving that goal.

So we are moving. All is not perfect. We have a lot to do. I think Congress has a lot to do in helping pull together and give us the tools that we need to make a lot of these changes. I appreciate, Mr. Chairman, your recognition that I have only been on the job a few months, and it seems like I probably landed at the worst possible time, with Gramm-Rudman coming down the pike and putting the budget together. But you have my commitment that the "M" in OMB is alive and well and will be kicking even stronger.

I might say that one of the things that I talked about yesterday with the Cabinet and with the President is the importance of how we see the budget and the management parts of OMB coming together. We see them as a continuum on the same line. To do a budget involves management processes; that is, making priority decisions; focusing on what objectives are; seeing if they can't be achieved in a cost-effective way.

One way of carrying out those management decisions is through the budget process.

When I went through the so-called—I know I am taking your time, Mr. Chairman, but I want to be as complete as I can.

Chairman **Roth**. We have all morning.

Mr. **Miller**. When we went through the budget review process, mainly during the month of November, we sat down and went through the individual items but specifically carved out time to talk about how well each agency was managed and where in the agency the bottlenecks were, where the opportunities for improvement were. We asked whether the senior managers in the agencies have a real concept of where they fit in with the agency's overall mission and where that overall mission fits within the bigger picture. Are the civil servants in the agencies properly employed?

We get a lot of horror stories about civil servants and bureaucrats—I don't mean it to be pejorative, because I am one myself—that are not particularly enthusiastic about doing work. The fact of the matter is that most—having been in the ranks on a number of occasions—most bureaucrats are quite anxious to do a good job, are very proud of their work and are very responsive to recognition of the quality of their work.

It behooves us as managers to make sure that they are given meaningful work to do.

Chairman **Roth**. Could I interrupt, because my time is nearly up.

Mr. **Miller**. Sure.

Chairman **Roth**. One of my areas of interest is how OMB sees its responsibility in the management function. On the budget side, obviously, you are very much involved in reviewing and reducing or modifying the budget submissions of the agencies.

On the management side, I don't see, generally speaking, the same kind of involvement. That may be good. It may be bad. In certain areas, in the regulatory area, for example, the OMB has become quite involved, partly due to the criticism of people in Congress.

But I just wonder what you see as OMB's overall responsibilities. You know, you can have good management policies and practices and the wrong decision being made. That could be the case in, say, the Space Agency. Like you, I don't want to prejudge.

In the case of IRS, we suddenly find that the excuse, the alibi has been basically that the computer technology has collapsed. To what extent, for example, does or should your agency get involved? We are really in the computer age. I don't think we have caught up with that, either in the public or private sector.

To what extent do you try to set policy and implementation in these areas? If they are not working, should you be involved in looking as to why that happens?

Mr. **Miller**. Let me respond to both instances. Here is our management report. If you put alongside our budget documents, they climb up to here. Why is it? I think it is a reflection of two things. I think it is a reflection that historically OMB has not been involved in the management side and in the budget side. You are absolutely right, the criticisms are well taken.

Second, I think it is a reflection of the inherent difficulty of getting as quantitative a handle on the management part as on the budget part. Now, keep in mind that as I said, I view the budget document as the product of a management exercise, too. It is not just the budget.

But I think we can do more. I think in terms of productivity measures and reports, we need to expand our work. We are doing that. One of the difficulties, and we identified it and we had a colloquy about it in my confirmation hearings, is the difficulty of getting very precise measures on how well goods and services are being employed by the Federal Government.

We had a conference on productivity measurement a couple of months ago. We have one coming up, another one coming up this week, and obviously, we have to get a better handle on BLS statistics as well as involving OPM on these productivity measures. We need to do a better job, there is no question about it.

But to some extent, it is subjective and more difficult. You can easily talk about where the dollars go, but it is more difficult to have a generic measure of productivity.

The second point I would like to make responds more directly to your question. We are involved in these technological advances on the acquisition, on the Paperwork Reduction Act, as you know, the acquisition of information resources, particularly computers, the Brooks Act, et cetera, and we are monitoring that closely.

One of the things that I did in this budget review process is to make sure that every time there is a line item in an agency's budget involving acquisition of computer hardware, even software systems, that the OIRA people responsible for this were involved.

Can we do a better job? Sure. Are we going to do a better job? Yes. Will it happen immediately? No.

Chairman **Roth**. My time is up. I wanted to pursue this in some detail, particularly in the accounting areas, where you are dealing with something more tangible.

In the meantime, I will call on Senator Lawton Chiles.

Senator **Chiles**. How are we doing on selecting the Administrator for OFPP?

Mr. **Miller**. Senator, I knew that you would ask that. Let me say forthrightly, I promised in my confirmation hearings to give that a high priority, and I said, "trust me," and I guess you have reason not to trust me right now because we don't have an OFPP Director.

We have interviewed a number of people. I have discussed with my colleagues in the west wing some of these individuals. I would just say that the delay in choosing a person is a reflection not of callousness about the matter, but of seriousness about our choice.

It has, in my judgment, to be the right person, and in my judgment, the ideal qualifications for someone for that post, I will just tell you forthrightly, would be someone who ideally, is not part of the procurement community, so that they can see these issues with a little detachment and more objectivity.

On the other hand, I want them to know something about the procurement processes. I would like them to have a feel for regulations and how they work. I would like for the person to have some experience in dealing with Congress and understanding that there is a two-way street and that to meet the congressional mandate, especially in this area, especially at a time when our procurement policies are subject to such intense scrutiny and question, there is a need to work with Congress.

I want somebody who is a leader; I want somebody who will be recognized by the agency heads and respected by them in order to secure better the cooperation of these people. As you know, the OFPP mandate is one where it is not quite like the budget, where OMB has sort of control over the budget and the agency has to come to OMB and is forced to negotiate with OMB in many areas. The OFPP is a little more like pushing on a string than pulling on a string, so this person has to be articulate and forceful.

The person also needs to be able to visualize and conceptualize the process and to identify those areas in which to give emphasis. Finding that person and assuring myself and being able to assure the President that this is the appropriate individual has not been an easy task, especially within the time constraints that we have.

Mr. Chairman, I think that you were making the comment, and you are absolutely right. It is human nature to deal with the in box, and the in box always deals with detail.

Senator CHILES. Let me interrupt, because my time is only limited here.

Mr. MILLER. Sorry.

Senator CHILES. I trust everything you say I kind of agree with you in what we are looking for. It strikes me as a little bit strange, and I wonder if it strikes you that way, that you are asking Congress for new procurement authorization when you can't procure a Director of OFPP. It seems like to me that ought to be the first priority on your procurement agenda right now, given all of these requirements that you want to have.

I know throughout the Government we are selecting other key people. We are having to do that. I know management is having to fill vacancies and has ways of doing it. How long, now, do you think we will wait until we find this super person?

Mr. MILLER. Well, certainly less than the wait since I have been confirmed.

Senator CHILES. I hope so.

The executive branch has produced six paperwork budgets, six information, collective budgets since President Carter launched the first budget in his last year in office. I see that you have claimed a reduction of 85.7 million hours of burden upon the public last year. That is roughly a billion dollars' worth of time that the public did not have to spend.

Explain to me what role you see the paperwork budget process playing as a management improvement tool. What relative importance do you place on the process? What do you see as its future importance?

Mr. **Miller**. Again, I see it as part of an integrated whole in working with the agencies to improve the delivery of goods and services and also to reduce the excess burden.

We can and shall continue to go up to explore every avenue for reducing excess demands. As you know, we review agency paperwork for demands. Some of these are sunset.

We look closely at them. We are always aware of the need to require information versus the needs to reduce the burdens. One of the things that disturbs us a bit in this area is increasing evidence of congressionally mandated requirements on agencies, where we really don't have much control. It is a high priority, but again, what I want to do is to see this as part of an integrated whole.

Senator **Chiles**. As you know, the major innovation behind the Paperwork Act was to link the various pieces of information policy together in one office in OMB. It included linking regulatory review with report clearance, statistical policy, ADP and others. How well do you think this concept is working? You have heard the criticism that regulatory review is pushing out all the others.

What do you think about that?

Mr. **Miller**. There is always this sort of competition for time, whether it is the Administrator of OIRA or whether it is the Deputy Director of OMB or the Director of OMB. The resources that OMB has are finite.

We have to do a balancing act. We have to choose priorities. I think, in my judgment, in a cost-effective way, the resources that we have asked for in this year's budget are sufficient to meet the mandates established by Congress, especially in view of our also participating in the President's program of increasing productivity. As you know, we have realized productivity gains year after year, but also that there have been additional demands on us, especially the Gramm-Rudman-Hollings exercise has spread us extraordinarily thin during the time of the budget preparation, during the months of November, December, and January.

But I think within the constraints that we have, we can do a good job in meeting the demands of the congressional mandates in that area, as well as others.

Senator **Chiles**. Mr. Chairman, that is all the questions I have.

Chairman **Roth**. Thank you, Senator Chiles. Let me ask a few more questions. For something like 35 years—that is a few years before you assumed your present responsibility—there has been a push on the part of the General Accounting Office in the area of accounting reforms.

Despite the fact that there has been general agreement on accounting principles, we find that many of the agencies still don't comply. Here is something that is relatively simple. I mean, there is agreement as to what needs to be done, and yet we find that the bureaucracy down through the years—whether it is Republican or Democrat, it doesn't make any difference—has not made much progress.

How can we begin? If we can't agree on some simple accounting procedures, which, in a sense, provide your intelligence or your knowledge of what is going on, how can we do anything in management? How can you, in the next year, come back and say, "Yes, we have some common accounting principles; we have some financial management."

There is not yet a consensus exactly on what should be done. But if we don't have a unified financial management program, how do we have the wherewithal to deal with management problems?

Mr. **Miller**. That is a good point. We can do some things. We can't do them as well as if we did have a thoroughly modernized, defensible accounting system at every agency. Comptroller General Bowsher and I were scheduled to get together to discuss capital budgeting and also some of these accounting matters and were unable to do so.

I was unable to do so. I look forward to doing that. We chatted briefly. I think there are some opportunities for us to do a lot better in this area. I plan to press for a meeting to discuss standards and remedying the deficiencies the GAO has identified. I think in our response to the GAO report published at the end of the—their latest report, we indicated some slight differences of opinion, but overall, a commitment to follow up.

Chairman **Roth**. Obviously, different people have differing opinions. As far as I am concerned, and I am not an expert in this area, we ought to be able to agree on the principles, and then the question is, how do we implement them when you have agencies, where frankly, I think, in the past, there has been a reluctance. There is protection in lack of knowledge.

Mr. **Miller**. Absolutely. Right.

Chairman **Roth**. I wouldn't disagree if you came back and said, "Congress sometimes has supported the lack of knowledge" if a committee had a particular interest in a particular agency.

But it seems to me that the first step, if we are really going to do something on the management side, is to have the basis of knowledge consistent throughout government, whatever those principles are. My question—and maybe you can't answer it today—is whether there is adequate authority anywhere in the executive branch of Government short of the President—and he shouldn't be bothered with this kind of detail—to make certain that these agreed-upon policies will, in fact, be implemented now, or do we need to do something in that area?

Mr. **Miller**. Let me say that the package of reforms that the President sent up on June 31, I think, we need to follow through on. But within that context, I think there is authority. I mean, I think the Director of OMB has a good deal of authority in this area, and more persuasion, and I don't think there are really any significant restraints on OMB's ability to serve as a catalyst, at least, for these changes.

We may have to come to loggerheads with a couple of agencies which will have to be resolved by the President, but I doubt that we would reach that. Overall, let me say that especially after yesterday's very productive meeting with the President, not only is the President enthusiastic about these reforms, but the President's departmental and agency heads think that these are important changes, as well.

Let me get back to the question of the out box/in box business. I think you touched on it earlier. I just want to reinforce and agree with you. It is human nature to deal with that in box, and the in box is always full of nits and gnats.

It is more difficult to sit back and do the hard thinking and setting priorities and following through. We have to discipline ourselves to do that.

But I think there is a commitment. The President certainly indicated the command in various forms that these things will be done, and we will get them done.

Chairman ROTH. What is your position on a joint effort with the General Accounting Office and other agencies on financial reform? Is the joint financial management improvement program an appropriate vehicle?

Mr. MILLER. I think so. I haven't talked to Chuck about that. I do want to talk to him. I think that there is a lot there to explore.

Chairman ROTH. Let me ask you, in the face of Gramm-Rudman-Hollings, what effect will these budget cutbacks have, if any, on agency vulnerability to agency fraud and abuse?

Mr. MILLER. You know, everything else equal, a cutback in resources makes it a little more difficult to detect. On the other hand, since there are fewer resources, there may be less opportunity for fraud and abuse. We just have to be vigilant on that. The Inspectors General are well aware of the need for fiscal restraint, but, at the same time, making each dollar go as far as it can go.

So I don't see, from the 4.3-percent base reduction that the Gramm-Rudman-Hollings required in 1986, I don't see a significant danger. Obviously, if we had sequestering at the end of fiscal 1987, it would be a much more serious matter. We won't know what that is.

Chairman ROTH. Improving productivity, is critically important in Federal operations, is it your position that it will require more capital investment in more modern equipment and facilities?

Mr. MILLER. In some areas, that is correct. I think, though, that is overstated. We don't want to just improve productivity by substituting capital for labor. We don't want to just say that we can get along with *x* number fewer employees.

That is not necessarily our objective. For one thing, it tends to focus, or some people could say it would be focusing on Federal employees as being sort of the bad guys or bad gals, and we don't look at it like that.

We think, as I said before, Federal employees want to do a good job; they want to be productive, and we look at this program as one where we have an opportunity to work with them to secure their opportunities for being more productive and have more convincing authority to wield the public interest than they have now. Productivity improvement is using both capital and labor better; human resources and capital resources, improving their use together, not just substituting capital for labor.

Chairman ROTH. You see, I have a number of basic concerns. Too often, I am concerned that our management reforms nibble at the edges and really don't get into some of the gut decisions that I think have to be made if you really want to do something about cost effectiveness.

The first step, as I have already indicated, is in the area of financial management and accounting reforms, because it seems to me that without that basic information, it is very hard to do anything meaningful.

But I personally feel that we need to take a broad look at Government. The Senate has passed, on a number of occasions a bill which would establish a so-called Hoover Commission. This would take a hard look at the structure of Government.

Mr. **Miller**. Yes.

Chairman **Roth**. And certainly, the President has taken a number of initiatives in this area, but really, we haven't been able to do a great deal in the area of streamlining Government, generally.

Would you favor trying to create, again, some kind of a Hoover Commission to take a hard look at the bureaucracy and at how we can streamline it to give better service? I think that has to be the goal.

Mr. **Miller**. Let me answer it in two parts: One, on the kinds of management initiatives that we are under taking now, and the question of our nibbling at the edges, I think that you will see the activities of OMB and the agencies greatly expanded in the coming year.

I would suggest withholding judgment on the need for a Hoover-type commission on the management issues until that is done. We have the Grace Commission report. There are a number of recommendations there. We are taking, employing those recommendations, sifting through them and taking the portions we think are most relevant and most helpful and adopting them.

On the question of overall streamlining in organization of the Government, let me just say, to me, something that is very important. I have been saying it and expressing concern about it for several years. I think a logical ramification of the Supreme Court's decision in *Chadha* and its prodigy at the FTC, the decision on the one House veto, and even the special three judge panel's decision in Gramm-Rudman-Hollings and the specific language that is contained there about independent agencies, is going to lead inexorably to Supreme Court decisions that raise significant questions about the status, and I don't mean whether they are constitutional or unconstitutional you know, that they have to be eliminated. But the present arrangement of them, I think, is probably not constitutional, which means that we will be forced, as a Government, to address this issue of how they are supervised; the line authority for decisionmaking and so forth.

It is, perhaps, a given that in the case of independent agencies, the legislature has a big stake in that. Perhaps it would be appropriate at that time to have a Hoover-type commission look at this.

I don't want, at this point, to commit that that will be necessarily my recommendation or that is what the President would choose, but I see coming down the pike a very important issue with respect to the organization of government that might well be forced upon us if we do not choose to do it voluntarily.

Chairman **Roth**. I personally feel it is critically important, and I intend to push ahead on some kind of commission, because I think that is the only way we are going to take an overall look at Government. This has had strong bipartisan support. Tom Eagleton has been an advocate of it, as well as myself, in the past. I don't want to speak for him today.

I might say that in the area of the Grace Commission, we, together with the General Accounting Office, have been working very hard on those recommendations. We will be introducing a major bill in the next several weeks to provide legislative support for those recommendations.

I just have one or two further questions I want to ask. As a strong supporter of the inspector general concept, I do think it is important that we extend that concept to the other agencies.

The major complaint is that this could be costly or expensive. Is that necessarily inherent in setting up an independent audit office?

Mr. MILLER. I don't think so. Our finding is that inspectors general tend to, by far, pay for themselves.

Chairman ROTH. Do you support, in principle, the extension of this concept to the independent agencies?

Mr. MILLER. Yes.

Chairman ROTH. I very much appreciate that assistance and help.

One final question is in the area of field offices. Let me just give you a little of my feeling here. One of my concerns as we have restructured and reorganized, is that the basic purpose of Government is to give service, basic service to the people. The problem I find is that whenever we restructure or reduce, it is human nature of those in headquarters that are making the decisions to protect their interests so the first ones to go are the field offices; the second ones to go are probably the regional offices but, "By God, we are not going to touch anything in the home office."

Mr. MILLER. Right.

Chairman ROTH. That doesn't say that there doesn't need to be any reform of field offices. But it does seem to me as we go back to this idea of cost effectiveness that the crux of the idea of service is to bring service to the people back home. That is what they are paying for.

One of my concerns is that, in the past, the minute we begin reducing these, that the recommendations are always to eliminate offices in the States and protect those that are in the headquarters.

How do we deal with that problem?

Mr. MILLER. I think your identification of a bias is accurate. That bias needs to be overcome, or at least taken cognizance of. It seems to me that you have to make decisions on the merits.

Sometimes this means closing a regional office. Sometimes this means consolidating regional field offices to realize certain economies of scale or economies of scope. Sometimes a decision is made that, given the nature of an agency's mission, that local representation is not important or is not cost effective.

On the other hand, there may be times when, as conditions change, it is more important to expand that portion of an agency's activities. I would say, just as there is a propensity on the part of agency managers here in Washington to be inclined to shut down field offices, an inherent bias in that respect, there is also an inherent bias on the part of Members of Congress to want to put resources in districts and States that they represent.

So perhaps, for that reason, it is good that there is this tension. Perhaps those two biases offset one another.

But I just think you have to look at each of those things, each of the things and merits.

Chairman ROTH. Let me go one step further, because I think it was in the Nixon administration, we created the so-called regional offices, which have become very healthy, large-scale organizations.

Has your organization taken a look to see the merits of those proposals? I am not passing judgment, but the idea at that time was that by moving things from Washington to the regions, the region would become more familiar, give better service, and then you can move it on to the field office. Some people think we have just created another level of bureaucracy.

Mr. MILLER. I think they have worked pretty well. There are some agencies that do not comport with the 10 major Federal regions. We had, at the Federal Trade Commission, 10 regional offices, not all of which were in the 10 major Federal regions.

This issue is one of constant monitoring and discussion at OMB and with the agencies, and I think the best that can be said about it is that incrementally, we sort of higgle and haggle through, muddle through the process.

Maybe we need to look at the question; step back and raise this sort of generic question that you asked and answer that more fully rather than looking at the incremental things.

Good idea.

Chairman ROTH. A final question, and then we will submit additional written questions to you in the interest of conserving time.

Every time we go through one of these budget-cutting processes, there are a number of proposals made to cut back administrative management activities. I have done it myself, and others are doing it currently. In the area of travel, for example, there is usually a proposal made, "Well, we ought to cut travel across the board 10 percent, 15 percent." The CBO and some others, for some reason, don't give any credit for savings in this area. This is always very hard, both for the constituents back home and for the Senate to understand.

Does your agency take any hard look at travel policies of the agencies and how they are implemented? That is just one area. Another area is consultants, where people are constantly making proposals.

It is often said that we don't have more employees today than we did 20 years ago, and that shows government is becoming more efficient and more effective. However, the fact is we find a great growth in the consulting and hiring of people on the outside.

Are these areas that OMB, to your knowledge, since you have been there, is taking a hard look at?

Mr. MILLER. Yes. Let me say we did not look at that. Well, yes, I intend to take a hard look at it. No; in the budget review process, we did not identify this as one of the key issues for intensive scrutiny.

I think you are right. It is sort of the easy way out when you need a savings plug to say, "OK, let's cut travel," I agree with you, it has adverse effects. It keeps people from doing some of the things that need to be done.

We had, early on, as a Reform 88 project, as you know, trying to identify excessive travel and cut that out. I think we have made some reforms with use of credit cards and so forth that have saved money and made travel more cost effective.

But we, obviously, need to monitor this. It is just human nature to come in and ask for more travel expenses than are really justified, so there is always attention there. We just have to work on it.

On the question of the use of consultants, it is interesting that you should say that, because that came up yesterday in the meeting with the President, and I hope I am not violating any confidences, but Administrator Horner, Connie Horner mentioned that there may be excessive use of consultants.

The flip side of that is that there may not be as effective a use of Federal employees as there should be.

Frequently, I make the following observation: A new manager is appointed to a given shop. They come in, and their first question is, "How many new people can I bring aboard?" What they say is, "I would like to bring aboard people I know who can get the job done because I don't know anything about the people who are there."

I think the first question that needs to be asked is: Let's see what resources we have, and can those people do the job?

Then, if there is special expertise that is needed that is not readily available within the shop, we go outside to consultants. I think that simple decision process would probably mean that we have less use of consultants governmentwide and more effective use of those that we do utilize.

Chairman ROTH. Thank you, Mr. Miller.

Senator Gore.

Senator GORE. Mr. Chairman, because I was late getting here, I will submit any questions in writing. I would like to welcome Mr. Miller. If it hasn't already been done so, I would ask unanimous consent to put an opening statement in at the appropriate point in the record.

Chairman ROTH. It is so ordered.

[Senator Gore's opening statement follows:]

OPENING STATEMENT OF SENATOR GORE

Thank you, Mr. Chairman.

The legislation which we will be reviewing today encourages good government in the best sense. Several of these measures will work toward improving the government's management ability, a task which I believe is essential in improving the government's ability to serve the public.

There are many approaches that can be taken to improve the government's information and technology management. The Office of Technology Assessment is today releasing a report entitled "Federal Government Information Technology: Management, Security, and Congressional Oversight." This report suggests the many areas that merit Congressional attention.

For example, the OTA study points out a number of technological advances that would facilitate government foresight capability, improving the government's ability to make informed, intelligent choices.

I have introduced S. 1031, the Critical Trends Assessment Act, to address just this situation. The bill would create an Office of Critical Trends Assessment, responsible for monitoring long-term trends, examining alternatives, and increasing the awareness of these issues within the government and among the public at large.

I also intend to pursue the management initiatives inquiry that Senator Stevens and Senator Bingaman started at hearings before the Civil Service, Post Office and General Services Subcommittee in the last Congress. It is my hope that we will be able to explore further innovations in government management. There are a number of government agencies that have demonstrated considerable leadership in the area of management innovations, and I think we can all benefit from broader applications of these initiatives whenever appropriate.

Moreover, I hope that by holding hearings to draw attention to these new ideas, we can encourage the establishment of demonstration projects so agencies will able to implement these management innovations.

Upgrading the government's management ability is essential to its ability to respond to the people. Better information and technology management will also benefit Congress itself by giving it a better return on its considerable investment in technology.

I thank you, Mr. Chairman, for holding these hearings on a topic that, while not very exciting, is of utmost importance to continuing excellence in the government.

Chairman ROTH. Thank you, Jim. I look forward to working with you.[1]

I call forward now the Comptroller General.

Chuck, it is always a great pleasure to have you here. I look forward to your testimony. If you would, for the purposes of the record, introduce your associates?

TESTOMONY OF HON. CHARLES A. BOWSHER, COMPTROLLER GENERAL OF THE UNITED STATES, ACCOMPANIED BY WILLIAM J. ANDERSON, DIRECTOR, GENERAL GOVERNMENT DIVISION, AND FREDERICK D. WOLF, DIRECTOR, ACCOUNTING AND FINANCIAL MANAGEMENT DIVISION

Mr. BOWSHER. Thank you very much, Mr. Chairman. It is a great pleasure to be here again and to appear before you. On my left is Bill Anderson, the Director of our General Government Division, and on my right, is Fred Wolf, Director of our Accounting and Financial Management Division at GAO.

Let me read my statement. It is only 7 pages and I will read it and try to get through it fairly fast here.

We believe that progress has been made here in recent years on management issues, but I think also, the management structure and the system supporting our leaders are still far from what we need them to be. These systems are at the very heart of the government's ability to provide efficient and quality public services, and with them, we process tax returns; we distribute social security checks; we track weapon systems costs; collect debts owed to the government; perform other essential tasks.

The 11 management bills pending before the committee attest to the growing number of petitions for improvement. Each has some merit, but several also raise certain concerns, and our detailed comments on each bill are attached to this statement. My remarks this morning will focus on certain bills and the most pressing management issues that warrant congressional attention.

As we consider the state of the Federal management, it is important to recognize efforts underway to achieve improvements. The administration has moved to institute more systematic practices in areas such as cash and credit management and established the President's Councils on Management Improvement and Integrity and Efficiency to help foster those improvements. Our own recent management reviews at the Department of Labor and Justice and at the Defense Logistics Agency provide evidence of improvement efforts within individual departments.

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[1] Additional questions for Mr. Miller are on p. 41.

And the Congress has made important contributions through such legislation as the Federal Managers' Financial Integrity Act and the Prompt Payment and Debt Collection Acts.

Today, however, our Nation faces many trying and critical challenges. Mounting deficits pose severe threats to our long-term economic well-being and threaten to undermine our ability to meet the needs of our citizens. If our unprecedented deficit situation is to be confronted successfully, the President and the Congress must agree on a disciplined program to reduce spending, increase taxes, or both.

It is equally imperative that we achieve more efficient and effective government operations. The need for strong leadership and improved management systems has never been greater. We must take a concerted and sustained effort to improve government management if we are to ensure quality service to the public.

I believe the improvement in three management areas in particular would greatly help agency managers and the Congress in addressing the difficult decisions which lie ahead.

The first area is the urgent need for financial management reform. The foremost area is a comprehensive need for an overhaul of our Federal Government's financial management system. The Government's antiquated processes often do not provide the timely and reliable program and financial information needed by policymakers and managers.

Improved systems will not make difficult budget and program management decisions easy, but they will ensure that the policymakers have adequate information to understand the issues they face, the choices available, and the consequences of those choices for the American people.

Some State and local governments, faced with major fiscal problems themselves, have already undertaken comprehensive reform of their financial management systems. Indeed, today, many States have more modern systems than the Federal Government. In contrast, the Federal approach to financial management has not fundmentally changed since World War II, despite major opportunities for improvements offered by the advances today in computers and telecommunication technology.

Our work over the years, as well as the agencies' own Financial Integrity Act reports, reveals an extensive list of serious, often longstanding problems with the Federal financial management systems. At the end of 1984, Federal agencies reported that over half of the Government's 427 accounting systems were either not in conformance or not known to be in conformance with appropriate accounting principles and standards.

These inadequacies are not problems of accounting theory. They directly affect the Government's ability to operate efficiently and effectively.

For example, the Veterans' Administration cannot determine the cost effectiveness of its hospitals because its accounting system cannot accurately identify the costs of treating a patient in a VA hospital.

DOD's reports to the Congress on the status of major weapon systems, the selected acquisition reports, have not provided reliable estimates of cost, schedule and technical performance. They do not present, or readily permit, analyses of actual costs or cost estimate trends.

The Department of Education's attempts to collect billions of dollars in delinquent debts have been hampered by an accounting system that contains inaccurate information.

Much can be done to provide policy-makers and managers with a better basis for making difficult resource allocations and other managerial decisions. We outlined a blueprint for overcoming the Government's financial management problems in our 1985 report, entitled "Managing the Cost of Government." It emphasized the need to:

One, strengthen accounting, auditing and reporting; two, improve planning and programming; three, streamline the budget process; and four, systematically measure performance.

I hope that this hearing will lay the groundwork for a series of discussions moving the Congress, the executive branch and others toward a consensus on the basic approach needed to build a sound financial management structure.

A related issue is the need to strengthen management controls so that we make the most of every tax dollar and safeguard Federal resources. Because of inadequate controls, the taxpayer continues to read of overcharges for goods and services, cost overruns, the purchase of faulty equipment, and other problems, while budget deficits escalate. Examples of inadequate controls, which are drawn from our latest summary report on the implementation of the Financial Integrity Act, include:

The IRS reporting that they have severe problems in its ADP systems that disrupted its ability to provide timely refunds to the public during last year's filing season, and this problem was the one reason the Government has to pay $40.2 million in interest on overdue refunds in 1985, which was 53 percent more than they paid in 1984.

Another area is in the estimated Medicare overpayments of $940 million in fiscal year 1986 alone, because the Department of Health and Human Services relied on unaudited cost reports for inpatient hospital services, which frequently included items Medicare does not allow.

And at the Defense Logistics Agency, about $23 million was spent for items the Agency could not verify receiving.

The annual reporting requirement under the Financial Integrity Act has stimulated improvement controls. We commend the Agency officials for disclosing their problems and beginning to take action.

Attention must now be focused on ensuring the correction of these problems. Many areas will take time to improve, but vigilence in strengthening controls and continuing congressional oversight should pay lasting dividends. Another opportunity to improve controls is offered by S. 2005, which would strengthen audit units in smaller agencies through amendments to the Inspector General Act.

The third major area that I would like to turn to is productivity; that represents a largely untapped potential. We advocate more systematic productivity management as a way of maintaining quality public service while saving costs.

For example, in one Social Security region, some offices process nearly twice the claims per person as others. Raising the below average offices to the regional average would achieve a 4-percent productivity improvement, or the equivalent of about $6.5 million.

The key elements of productivity improvement include sustaining top management interest, fostering employee participation, measuring progress against goals, and holding managers accountable for improvements. The potential gains could be substantial. In a 1983 report that we issued, we estimated that a 5-percent increase in Federal productivity could save as much as $4.5 billion.

The President's program contains a number of key elements for successful productivity improvement. Passage of Senate Joint Resolution 190 would also signal the congressional support for improving productivity. So we endorse its approval.

Significant challenges, however, lie ahead if the current effort is to be successful. First, productivity improvement has to become an integral part of the management environment. Second, productivity measures of white collar activities have to be better developed. Third, management systems need to be able to provide the cost data needed to evaluate performance.

Now I would just like to make a few observations about sustaining attention to management improvement. History tells us that implementing management initiatives effectively has often proved elusive. Sustained attention is needed from OMB and the line agencies.

One bill before this committee holds promise for establishing a process to help sustain executive branch commitment and for providing a forum for congressional oversight. This bill, S. 2004, would require the President to submit an annual management report with the budget. Such a report was required by the Deficit Reduction Act on a one-time basis for fiscal year 1986, and the administration has chosen to follow the practice again this year.

So S. 2004 would ensure that this practice continues by providing a statutory base, which has been helpful in sustaining past management improvement efforts. Moreover, it would ensure that future administrations account for their progress in key areas, such as financial management and human resources development.

The management report could also foster a dialog with the Congress on what issues are most important and help develop concensus on what needs to be done.

While we support the concept of a comprehensive report, it should be viewed as only one step in strengthening Federal management. Improvements hinge largely on the substance of the agenda pursued and on the actions taken by individual agencies. While Governmentwide initiatives can provide an important impetus, individual agencies are the primary agents of change for improving management and delivering services more efficiently.

In closing, I would like to echo the words of President Truman's advisory committee on management that there is, and I quote, "no single, sure-fire and practicable panacea to guarantee the improvement of management in the Federal Government".

Management initiatives are not always topical, and improvements often do not come easy. If we are to achieve lasting progress, we must begin by rebuilding our financial management structure, renewing our commitment to strengthening controls, and systematically ferreting out opportunities for greater efficiencies.

In today's deficit environment, we cannot afford the cost of inaction. The serious threat to our Nation's viability dictates that we sustain an unwaivering quest to make our Government more efficient, more responsive and managed in a manner that the American people deserve.

Mr. Chairman, this concludes my remarks. I would be happy to answer any questions.[1]

Chairman **Roth**. Thank you very much for your informative statement.

I would like to go back to one statement with which I agree very strongly, and that is where you say if we are to achieve lasting progress, we must begin by rebuilding our financial management structure. You heard a little of my discussion with Jim Miller on this matter.

What concerns me is that we have talked about accounting reforms and financial management structure as long as I have been a member of this committee, and I think the preceding chairmen were just as much interested as I am.

Yet I don't see any real progress being made in these areas beyond sitting around the table talking about the need. What can we do here from the legislative end to say that, No. 1, the accounting reforms which have been in process for a lifetime become adopted, not some time way off in the future, but now. If they are desirable, why shouldn't they be adopted by all the agencies?

Within the Department of Defense alone, OMB recently reported that only 65 of 146 department accounting systems conformed to your accounting systems standards.

What more needs to be done to get these adopted?

Mr. **Bowsher**. Mr. Chairman, you are absolutely right about the fact that we have been sitting around talking about this for many years. Yesterday I was testifying before the Appropriations Committee, and Congressman Myers from Indiana said that he came to Congress 20 years ago. He found the information hardly intelligible and could not make any sense out of the budget and accounting documents, and he said, "If anything, it has gotten worse," and he said, "I would like to have your comment on that."

I said, "Well, I agree." I said, "I came to this town about 20 years ago, first in government, and I think it has not improved in that time."

I think it is long overdue. I think one more time, now, we have Gramm-Rudman, and we have another chart of accounts being forced upon us by the PPA structure that is part of that process, and so we have another way of keeping score. It just gets more and more complicated. It is more and more difficult for the people in the executive branch to manage the Government. It gets more and more difficult for the people in Congress to understand the information, and therefore, to make the tougher decisions they have to.

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[1] Attachment to Mr. Bowsher's statement is on p. 108.

When I first came into office here in 1981, I was hoping that we could all get together and work out the problem and get a program going. In fact, that is why we developed these booklets here to lay out a conceptual design. We said that this was our best thinking, and if other people had come to the conference table from OMB and from Treasury and from the Congress and agencies, we thought we could get it moving.

It hasn't happened. I was hoping to hear today maybe that the OMB people would be wanting to move forward. But in Director Miller's statement, there wasn't any indication.

He did point out that we had a meeting that unfortunately, we weren't able to have, but I am discouraged. I think the only way we are ever going to do it is if Congress passed some legislation. I know that your committee is considering that. I would urge you to move forward on a major piece of legislation in this financial management area and require the executive branch and ourselves to get together and come up with a modern design of a system and to implement it on a timely schedule.

Chairman **Roth**. What do you see as the effect of the Gramm-Rudman cutbacks on management improvements?

Mr. **Bowsher**. It could be a significant setback, because I think any time you go through budget cut drills, however you do them, why, I think efforts such as improving your management systems are among the first things that people think of letting go, rather than keeping the status quo, you might say, on other things, or even keeping people on the payroll, and that is understandable.

So I worry when we go into an area like this that the efforts that are even in progress will lose out to some of the budget decisions, tough budget decisions that might have to be made here in the coming months.

So it is a worrisome thing. At the same time, I strongly support the idea of reducing the deficit, and I think that the Gramm-Rudman process, although it has weaknesses that I have testified on, at least is getting us started down that road.

Chairman **Roth**. It is the intention of this committee to hold some hearings in the near future on the budgetary process, because frankly, I am concerned that the Federal Government, including the Congress, is giving the impression that it can't govern. There was a major article in the morning paper that pointed out how we have been unable to get a budget adopted on time in the past. We have been unable to move forward with reconciliation.

So I would hope that your office would be taking a hard look at the basic budget procedure as modified by Gramm-Rudman. Of course, we face the possibility that the Supreme Court may throw a monkey wrench into that piece of legislation.

But one of my concerns is that the budget process is so complex that the message that is going back home to the constituency that Washington is irrelevant; that it can't face the issues and it doesn't do anything. I go back to accounting. For 20 years, we have been talking about the same thing, and nothing happens.

So I think we need to take a hard look as to how we can address some of these problems of governing effectively.

One of my concerns, and I just touched on it earlier, is: What are we doing in the way of preparing for this new age of communications with computers? I know we have lots of systems, but what are we doing in the way of studying how they can make government more effective, not only cost effective, but provide better service? I think frankly, at home the reaction is, "If anything, they are doing the very opposite."

The IRS says that its system failed to function properly, and for that reason, I frankly have never seen a worse mess. That is the only way you can describe it.

Yet we are told this is the computer age and it is going to create all kinds of miracles so that we can retrieve promptly all kinds of information, and we can solve problems in a matter of seconds that took a lifetime before.

What should we be doing to prepare Government for this new age?

Mr. Bowsher. Mr. Chairman, I think it is very crucial, the point you are bringing up here, because I think that we have large parts of the Government, the IRS, the Social Security Administration, the Veterans' Administration, that are in the service business. In other words, they are to provide service in dealing with the American public, and yet, as their computers have gotten old and obsolete, we now are seeing breakdowns, major breakdowns.

I think, again, with Gramm-Rudman here and the budget cuts that might have to be made, you have the potential for more IRS's, and so we are trying to review some of these major areas of the bill.

Mr. Anderson's people have finished a major review of the Justice Department. We are looking at the Social Security Administration. We are hopefully going to make a major review at IRS. We have been looking at some of their problem areas, but we are hoping to make a major review and look at some of their long-term plans and solutions and just see why we can't have some plans and some computerization, communications improvement that really get the Government operations into the modern vein.

Now, I think somebody on the executive branch has got to do that, too. In other words, we can review; we can recommend; and yet, unless somebody picks it up in the executive branch and goes with it and makes those, turns those programs into success, why, then you don't get the success or the payoff from these reviews?

One review we have had recently was here in the Labor Department that Secretary Bill Brock is picking up, who is just very impressive, I think. I think if you ever wanted to have a meeting with myself and the Secretary, or a hearing on it, I think we could show that by having a review, which we just started with his predecessors, and we were able to give them the results of it as he was coming into office, and he has picked it up and built, in addition to his own ideas and his own people's recommendations, into a plan of action now for running the labor Department, and they are going to have quarterly reviews as to how well things are going, and they are going to ask us to come in once a year and give a score card as to how well they are doing, in other words, an external review.

So I think it is those kinds of efforts that could start to pay off if we all work together. But we have got to be willing to make those efforts, and of course, we need the congressional support, which I think your committee and others have always been very interested in.

Chairman ROTH. Let me ask this. I agree with you that there ought to be somebody in the executive branch spearheading this effort.

Is this the kind of problem that ought to be solved by the individual agencies such as the Labor Department is doing under Bill Brock, or should we try to see to it that somebody at OMB or at the White House level undertakes this kind of an effort?

Mr. BOWSHER. I would think that the main efforts have to be at the agency level. I think that all too often, we have thought that an OMB circular or some kind of a directorate from the central agency would solve problems, and it just doesn't. So I think the main efforts have to be by the individual departments and agencies.

But at the same time, there are some cross-cutting systems and areas such as financial management; such as productivity in that that should be the prerogatives of the "M" of OMB, and certainly, then, some overall review at the White House, which I think Don Regan is very interested in doing.

When I had discussions with him, he is certainly interested in some of these areas. So I think it is a combination of leadership and initiative on the central agency's part in the areas that cross, go through all the agencies, you might say, but at the same time, to get each department running efficiently and well and everything like that, then that has to be the leadership and the heads of each agency.

Chairman ROTH. I gather from your statement—perhaps I am misinterpreting—but I gather that generally speaking, you don't see this happening except in isolated cases, as with the Department of Labor.

Mr. BOWSHER. I think that is a fair statement, Mr. Chairman, yes. In other words, I think that we see it occasionally, and in doing some of this management review work, one of the things we have come up with, a major finding, is that a lot of the initiatives get started by various administrations and various Cabinet officers, but so few of them get carried through to completion.

We have a lot of turnover, and that is unfortunate. Because I think that in the last 8, 10, or 15 years we are just not getting the real long-term improvements that you need to run a large organization.

Chairman ROTH. I would like to have a letter prepared to send to the administration, probably to Don Regan, to urge that there be some type of a task force or whatever we think is appropriate to really begin, in a serious fashion, preparing the Federal Government for the 21th century.

I have a number of other questions.

Mr. BOWSHER. Bill Anderson has just passed me a note here regarding the Paperwork Reductions Act. That effort has been implemented quite well. In other words, we do see the volume of the paperwork coming down, and I think some of those initiatives have been done quite well, and I would like to point that out.

Chairman **Roth**. I think that is very encouraging.

Let me ask you one question in this area. Have you or anyone looked at this paper reduction from the standpoint of its effect on the individual back home, the small business?

Mr. **Bowsher**. Yes, we have. In fact, I will ask Bill to respond it, because his division has made those studies.

Mr. **Anderson**. Yes, sir, as you know, OMB does prepare a burden budget each year. It's strategy, over the years, in order to drive reductions, has been to steadily lower the total burden that the Government would be allowed to place on the public.

We have gone behind those numbers from time to time. We found some errors here and there, but we thought that they provided a useful gross measure of the progress that was being made in reducing the burden on the public.

But another point I would like to make in connection with that act, Mr. Chairman, is that it did provide machinery for identifying and assessing opportunities to bring computers and telecommunications technology to bear in doing the work of government. You are aware that each agency was supposed to appoint an official to accomplish that important business.

OIRA, Mr. Miller's first post of duty in the administration—he was director there—had a strong responsibility for overseeing that. We haven't looked at that operation lately, but a few years ago, when we did, we thought that OMB was not providing the leadership that was required or that the agencies out there were really operating in a way that the Congress had in mind when it passed that legislation.

Chairman **Roth**. I appreciate that insight. I would be interested in knowing if you have had a chance to look at what has happened more recently.

Mr. **Anderson**. I know Mr. Bowsher has tasked that that be done, sir, already.

Chairman **Roth**. Again, we will submit questions to you in writing.[1] I appreciate all three of you gentlemen being here today. Thank you very much.

Mr. **Bowsher**. Thank you very much, Mr. Chairman.

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[1] Additional questions for Mr. Bowsher are on p. 133, 158.

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ADDITIONAL MATERIAL SUBMITTED FOR THE RECORD

EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

OMB COMMENTS ON PROPOSED MANAGEMENT LEGISLATION

February 26, 1986

REORGANIZATION ACT OF 1985

The Reorganization Act of 1985, S. 1657, would renew through 1988 the President's authority to propose plans for reorganizations in the executive branch. This authority expired on April 7, 1981, and was extended for a few months in late 1984, expiring again on December 31, 1984. Renewal would provide the President with the authority necessary for efficient and effective management of the executive branch by providing a mechanism for obtaining expeditious congressional consideration of desirable organizational changes. Such organizational changes involve restructuring within a Department or Agency, or between Departments or Agencies, but exclude establishing or abolishing an Agency or Department.

In light of Congress' recent consideration of this basic authority and the fact that we are requesting only a simple extension of the authority, without amendments, we trust that favorable action on S. 1657 will occur promptly. We recognize that the successful use of this authority would require early and open consultation with you and your Committee, and we commit ourselves to such consultations.

INSPECTOR GENERAL ACT AMENDMENTS OF 1986

As the members of this Committee know, the Inspectors General are in the forefront of our fight to control fraud, waste, and abuse in Federal programs. The President's Council on Integrity and Efficiency (PCIE) has reported over 12,223 successful prosecutions, over $354 million in recoveries from investigations, 12,600 administrative sanctions, and over $6.4 billion in commitments to seek recoveries since the Council's creation in 1981. The IGs' most important legacy over the long term, however, may be their non-quantifiable contributions to better management of Federal programs.

In April, the Administration forwarded to the Congress a series of technical amendments to the Inspector General Act of 1978. These amendments would establish uniform salary levels for all the Inspectors General, place the Inspectors General of the Departments of Energy and Health and Human Services under the provisions of the 1978 act, and provide authority to the IGs to administer oaths. We continue to support these provisions as necessary technical adjustments to standardize and enhance the operations of the affected IGs.

A similar bill, S. 2005 was introduced incorporating the Administration's bill and adding several additional provisions. Specifically, S. 2005 would extend the IG Act to small agencies, establish an Inspector General Interagency Committee and require a study of small agency audit units. The Administration supports, in concept, the extension of the IG Act to small agencies. We believe that its extension to small agencies with audit units would contribute to the President's efforts to control fraud, waste and abuse and support this initiative. In particular, we endorse the importance of IG independence and believe that the creation of units by statute in small agencies would strengthen the ability of these units to conduct reviews, recommend remedies and provide professional advice to agency management and the Congress.

However, we are concerned that several of the requirements in the IG Act may be unduly burdensome on small agencies. We would like to work with the Committee to identify ways to alleviate unnecessary burdens without compromising independence and the dual-reporting relationship with Congress and agency management which is the strength of the IG concept. A two-tier approach may be a viable option.

FIELD OFFICE REPORT ACT OF 1985
FIELD OFFICE CLOSING JUSTIFICATION

S. 1206, the Field Office Report Act of 1985, and H.R. 2401, the Field Office Closing Justification Act, would restrict the ability of the Administration to establish an efficient field office structure. S. 1206 would freeze for 270 days any field office consolidation, reorganization, or closing and also would require that detailed justification of each such action be provided to the Congress. H.R. 2401 would require even more detailed Agency reports and a 120-day freeze on any office change.

The Administration is opposed to both bills. These bills would place burdensome reporting requirements on Agencies and diminish the President's ability to carry out his responsibility for executing laws in the most efficient way. We believe that both bills represent an intrusion upon the President's responsibility for executive branch management. At the same time, however, as we have communicated to the Congress, executive Agencies have kept and will continue to keep Congress informed about organizational field changes.

GOVERNMENT MANAGEMENT REPORT ACT OF 1986

The Government Management Report Act, S. 2004, would require the President to transmit with his annual budget request to Congress a report on the management of the executive branch of Government. We welcome the opportunity to provide such a report on the Administration's initiatives to improve Government and on legislation needed to support such initiatives. In fact, the 1987 report is the second such report provided to the Congress.

We are, however, concerned about the overly prescriptive nature of the requirements contained in the bill. As currently drafted, fulfilling the requirements of the report will involve many staff years and will consume hundreds, perhaps thousands, of pages of text. For example, section 2 requires a detailed report on all Governmentwide management problems and issues -- clearly an inexhaustible topic. Furthermore, section 3 would require OMB to identify every management initiative, describe it, and analyze resulting improvements, estimate cost savings, and determine implementation issues and impacts. There are literally thousands of initiatives ranging from very small to extremely significant.

The Administration does not support this bill. We would, however, support the general concept in S. 2004, but are concerned that it avoid excessive detail and rigidity. We would welcome a bill that simply establishs a requirement for an annual report, one without highly detailed or rigid provisions. Such a bill would permit us to work together annually to determine the highlights of the report and to use the report to focus on key issues and problems Congress and the Administration would like to see addressed. Through this process, we can produce a truly useful report for both the executive branch and the Congress.

THE CONTRACT DISPUTES AMENDMENTS OF 1986

The Contract Disputes Act is the basic statute governing the submission of contract claims to the Government and the resolution of disputes arising from such claims. Since its enactment in 1978, we have identified a number of relatively minor problems with the act which could be remedied through such legislation as S. 2006, the Contract Disputes Amendments of 1986. These changes will not greatly alter the existing law, but should eliminate needless litigation, thus benefiting all parties. The key proposed changes are:

-- Section 2 requires that contractors submit all claims to a contracting officer for resolution within eighteen months of when they occur. Currently, there is no deadline for submission.

-- Section 3 clarifies the statute of limitations for appeal of a contracting officer's decision. Appeals by a contractor must be made within 90 days to either a board of contract appeals or to the United States Claims Court.

-- Section 4 adds a new section 15 which requires a contractor to pay the Government money which the contracting officer determines is owed within ninety days of such determination, unless an appeal is submitted.

-- Subsection 15(b) would allow the Government to proceed in District Court to collect sums owed. Subsection 15(c) would give the Government additional authority to seek injunctive relief to protect the assets of a contractor in the event that an award by the court to the Government has not yet been paid pending appeal.

-- Subsection 15(d) makes it clear that when the Government brings suit to enforce such a judgment the Distict Court judge may not review the underlying decision of the contracting officer (since that was the decision which the contractor chose not to appeal).

-- Section 5 would overturn a recent decision of the Armed Services Board of Contract Appeals, DMJM/Norman Engineering Co., ASBCA No. 28154, 84-1 BCA 17,226, which held that the Government must follow the procedures set forth in the Debt Collection Act before using its common-law right of offset to collect amounts due. Under the accepted common-law right of offset, the Goverment has the right, as does any debtor, to offset money owed (e.g., pursuant to a prior court judgement) before paying a debt to a contractor. (No notice or due process is required for common-law offset; all necessary rights were provided when the Government adjudicated its underlying rights to the money.)

Prior to the Norman Engineering decision, this right had been routinely used and never challenged. It is an effective and vital method of recouping sums owed to the United States. However, since enactment of the Debt

Collection Act in 1981 and the Norman Engineering decision a few years later, contractors have challenged this offset right asserting that the Government must follow the administrative offset provisions established in the Debt Collection Act, 31 U.S.C. S 3716. These procedures include: (1) notice of the claim and the intention to offset; (2) "an opportunity to inspect and copy the records of the Agency related to the claim;" (3) an opportunity to review the Agency's decision relating to the claim; and (4) an opportunity to make a written agreement with the Agency on the terms of repayment. Contractors made particular use of this theory to demand access to all records relating to the contract, in effect using it as a right of discovery.

The Administration does not believe that the Debt Collection Act procedures were intended to apply to traditional contract disputes where the Government has a right to offset penalties for inadequate performance against payments due a contractor. Certainly nothing in the legislative history suggests that this was the intent of Congress. Hence, the Debt Collection Act would be amended to ensure that it does not hinder Government efforts to collect money due for inadequate contract performance.

PROCUREMENT REFORM

The Administration has submitted four proposals to effect procurement reforms. The Administration's position on two of these proposals is set forth below. S. 2007, the "Procurement Test Act of 1986," and S. 2008, the "Simplified Competitive Acquisition Technique Act of 1986."

As you are well aware, the Federal procurement system has become increasingly complex and unwieldy. The President recognized the need for significant improvement in the Federal procurement system when the Administration's Proposal for a Uniform Federal Procurement System was submitted to the Congress in February 1982, and again, when he issued Executive Order 12352 on Federal Procurement Reforms in March 1982. As a result of those initiatives and of course, the active support of this Committee, many improvements have been introduced into the procurement process. However, we believe there is still much that can be accomplished.

We are pleased to note the Committee's interest in the multi-year contracting proposal and hope you will take action on this legislation shortly.

The proposal to amend the OFPP Act to provide authority to test innovative procurement methods and procedures (S. 2007) would permit the Director of the Office of Management and Budget to conduct limited tests of new ideas and concepts without regard to existing statutory restrictions.

The Director could waive statutory provisions for the limited purpose of conducting the test. There would be appropriate notice to the Congress 60 days prior to the commencement of such a test. The GAO recommended testing as a technique for assessing the value of new ideas in procurement in its report to Congress in September 1977 entitled, "An Organized Approach to Improving Federal Procurement Practices." If the test proves that savings and efficiencies can be made, the innovative procedure could be authorized on a permanent basis by the Congress. We believe such an approach would lead to orderly development of improved procurement procedures.

The second proposal is S. 2008 which would, if enacted, establish an alternative simplified procurement method for competitively negotiating procurements of less than $5 million. The adoption of such a procedure would significantly reduce the time it takes from the development of a requirement in the Agency procurement office to award of a contract. The proposal provides for a simplified and accelerated procedure to be used only where competition exists for a negotiated procurement between $25,000 and $5 million. It would not affect procurements which meet the criteria for sealed bid procedures.

A number of benefits will be derived from moving the procurements to contract faster. First, Agency program officials will receive the goods and services they need to deliver programs to the public sooner. Secondly, because of faster turnaround, Agency procurement officers will be able to handle a larger number of procurement actions each year. Lastly, use of this procedure will increase competition by reducing the volume of non-competitive procurements that are currently justified on the basis of time-related factors.

As Congress considers the legislative aspects of this proposal, OFPP is going ahead with implementation of those recommendations which can be instituted administratively.

PAPERWORK AND REGULATORY SIMPLIFICATION ACT

Over the past several years, it became obvious to us during our involvement with the regulatory process that Agencies are sometimes required by statute to impose regulatory and reporting burdens on the public. We realized that in many instances the original reason for passage of these explicit provisions no longer exists or is no longer important. OMB worked closely with the Agencies to identify such statutory requirements for data gathering, reporting, or regulation which no longer serve a useful purpose. The idea behind the Paperwork and Regulatory Simplification Act, introduced as S. 2010, was to package together into one bill as many of these items as we could find. Examples of provisions in this bill are:

- -- The elimination of a decennial census of drainage areas;
- -- The elimination of restrictions on for-profit organizations receiving certain Federal grants or contracts;
- -- Elimination of the establishment of a standard barrel size for apples; and
- -- Elimination of a requirement that wholesale liquor dealers post a sign outside their premises.

Contained in this bill are sixty provisions like these, which are administered by a number of Department and Agencies, and which should be eliminated or changed. Enactment of the provisions contained in this bill will both improve Government efficiency and eliminate unnecessary burdens imposed upon the public. Although this is our first effort at developing a Governmentwide bill of this type, we intend to continue to identify similar unnecessary statutory provisions in the future and bring them to the attention of Congress.

ELECTRONIC FUNDS TRANSFER FEDERAL SALARIES ACT

Another effort to improve management effectiveness is S.2009, a bill which would authorize the Secretary of the Treasury to issue regulations to require that wages and salaries of Federal employees be paid by electronic funds transfer (EFT).

This legislation also provides the Secretary with the discretion to issue checks whenever the best interests of the Government so dictates.

Currently, it costs Treasury $.26 for each issued salary and wage check, while the same payment made by electronic funds transfer methods cost $.03. It is expected that approximately $10.8 million annually will be saved through enactment of this bill.

Conversion of Federal salary and wage payments to electronic funds transfer methods will eliminate lost, forged, or stolen checks and the attendant cost associated with issuance of new payments. In addition, use of the electronic funds transfer payment method will afford employees earlier access to their banked payments.

We are aware that some Federal employees have assignments which preclude use of the electronic funds transfer payment method. We are also sensitive to the fact that some employees may not have bank accounts. Regulations which establish a salary and wage level under which present employees may request payments by check have been prepared to address these concerns. The draft regulations have been prepared and published in the Federal Register. In this regard, we wish to reassure Congress that we have briefed all Departments about our intent and will work closely with affected employees and their representatives to ensure that no one is unfairly affected.

Additional Questions for James C. Miller III
Submitted by Senator William V. Roth, Jr.

General

Question 1: How many people perform management functions at OMB? How does that compare with the number five years ago? Are there sufficient staff to follow through on all the management initiatives you now have underway and planned?

Answer: The answer to this and other questions in this section depends in part on how management is defined. Virtually all OMB staff perform management functions. Depending on how management is defined, some staff of OMB devote more time than others.

The following table shows the allocation of full-time, on-board staff in OMB in 1981 and 1986 allocated among (a) the management, information and regulatory affairs staff; (b) the budget divisions and the Budget Review Division; and (c) other (including general overhead).

OMB FULL-TIME Personnel*

	On Board 10/1/81		On Board 3/1/86	
	Number	Percent	Number	Percent
Mgt. Info. & Reg. Affairs	138	25	109	21
Budget Divs. & BRD	322	59	323	63
Other	84	16	83	16
Total	544	100	515	100

*Excludes OFPP

The preponderance of activity performed by the first groups of organizations is devoted to management policy and oversight of management implementation. Between 1981 and 1986, the size of this staff has declined from 138 to 109 and is now about 21% of OMB's total staff.

I want to stress that the entire staff of OMB is devoted to management functions. A central responsibility of the budget divisions is to monitor the implementation by the executive agencies of policy and budgetary decisions reflected in each year's President's budget and legislative programs. This monitoring function serves the dual purpose of providing a basis for recommending funding and policy decisions for each agency in succeeding budgets and helping assure that budgetary decisions are fully understood and implemented consistent with the President's program.

The staffing level proposed for OMB in the 1987 budget does provide for sufficient staff to follow through on the management initiatives now underway and contemplated. I want to stress, however, that staff specifically identified as "management" are not solely responsible for this. As indicated, all units of OMB share in the responsibility for monitoring management initiatives. Indeed, one important element of the Management Review process initiated by this Administration has been to achieve close coordination and interaction of the management and budget staffs of OMB to assure that all units are working together, thus, maximizing our overall efforts.

Question 2: What percentage of your time have you spent on management issues? What percentage of your time will you devote to management in the future.

Answer: Virtually 100% of the staff allocated to management, information and regulatory affairs are devoted to management issues or associated support functions. This will continue in the future.

The amount of time devoted to management issues by other OMB units (especially the budget divisions) varies from unit to unit and over time depending largely on the issues which arise in specific executive agencies. We have no current basis for estimating the percentage of time spent. However, as indicated above, the time spent on management issues is increasing as a direct reflection of the increased emphasis on management improvement under Reform '88 and through the management reviews. My own time is allocated roughly in the same proportion as OMB total staff.

Question 3: During your confirmation process, you identified human resource management as one of the "three most significant management problems" in Government. Yet, your FY 1987 management report does not contain a substantive discussion of how we develop our human capital. What are the key challenges to Government in attracting, training and motivating the workforce? What are the Administration's plans for improvements in this area?

Answer: I continue to believe that human resources management is a critical problem for Government. I do not agree that the FY 1987 management report failed to address this issue. That report discussed in considerable detail the President's Productivity Program. This program establishes a Government-wide initiative which, among other things, requires each agency to encourage employee participation through training, incentives, recognition and rewards. These requirements will stimulate the kinds of improvements that will go far to solve our problems in attracting, training, and motivating the workforce. The protections to minimize negative impacts on employees which may occur as a result of the productivity program should also help alleviate morale problems.

Further, the Office of Personnel Management will review incentive practices and programs and other personnel policies and practices and make or recommend changes to support productivity improvement. Resulting improvements in the work environment will also help us solve problems in human resource management.

The challenge for us in carrying through this program is to ensure continued top management commitment. The President's July 31, 1985, message to Congress was a clear signal of his personal interest and the priority status he gives to productivity improvement in Government. His memorandum to heads of departments and agencies, the Executive order, and the OMB bulletin give specific guidance to Federal agencies and define their accountability. Passage of the Joint Resolution on Productivity, introduced by you, would clearly demonstrate to the Nation the joint commitment of the Congress and the Administration to higher Federal productivity as a means of reducing costs while maintaining high-quality services to the public.

Question 4: Is the budgetary system we have today conducive to good management? What changes would you make in this system to make budgeting and management more compatible?

Answer: In general, the budgetary system is conducive to good management if used properly. This Administration has taken steps to assure that the budgetary system is in fact supportive of management efforts. The Management Review process is a good case-in-point. Under the overall leadership of the management staff of OMB, each agency annually identifies a number of specific initiatives and actions which it will undertake to improve its overall management. These management initiatives, along with funding and cost savings implications, are formalized during the annual budget review process and reflected in the President's budget submission to Congress. We have instituted a procedure and automated tracking system for monitoring agencies' progress in implementing the approved initiatives. While the OMB management staff is responsible for designing and leading this process and formulating specific management initiatives, all units of OMB, especially the budget staff, participate fully in this process.

Additional Questions for James C. Miller III
Submitted by Senator William V. Roth, Jr.

Productivity

Question 1: When agencies initiate new productivity efforts called for by the President's Executive order, how will you be assured that they will result in actual improvements in productivity and cost savings? Will OMB monitor agencies' productivity efforts to assure achievement of the President's goal?

Answer: The agencies are required by the Executive order to submit annual plans to OMB for review. The OMB bulletin (86-8, dated Feburary 28, 1986) requires that those plans contain a base line of data indicating where the agency stands with each of its initiatives at the start of the process and requires agencies to develop measures which include unit costs for the products or services of the function or initiative. Each year, the agencies are to report on changes in productivity against the baseline of data, using the measures set forth in the plan, including unit costs. The agency productivity plan will also be entered, with milestones, in the OMB automated tracking system and the milestones will be monitored by OMB. OMB assigns management analysts to each agency, in the same manner that budget analysts are assigned to each agency, to monitor agency progress on a continuous basis, to assure achievement of the President's goals, and also the goals and objectives of each agency for each initiative.

Question 2: If productivity improvement programs are implemented and we achieve the goal of 20 percent improvement by 1992 as established by the President's order, can we expect to see some actual budget savings attributable to such programs?

a. Will savings resulting from productivity improvement be captured in the budget process?

b. Will the savings be shared with the agencies?

Answer: Yes, we can expect to see some actual budget savings which can be attributed to the productivity improvement program in the agencies. Actual savings will be captured in the management review and budget process. The way in which this will happen is that when agencies submit their plans, required by the Executive order and bulletin, they must indicate their expected costs of implementing initiatives as well as their expected actual savings, if any. Management analysts and budget analysts at OMB will review the plans and discuss them with agency staff. If the productivity improvement promised is one which is to achieve savings within the next budget year, those will be reflected in the recommendations OMB will make with regard to the agency's budget. It needs to be noted that some productivity gains will not initially result in actual budget savings, since in some agencies with rising workloads, productivity gains may produce only cost avoidances in the immediate future. The objective, however, is to achieve the maximum in actual savings as soon as possible. We expect that agencies will use some of the savings to recognize and reward individuals and groups for their contributions to the productivity improvement achieved. We have not provided for automatic savings for agencies in the sense that they could use some portion of the savings for other purposes. We have taken the position, however, that we will look with favor on proposals from agencies which have a proven track record of productivity gains for reprogramming or for budget requests aimed at achieving still further productivity improvement.

There was no question 3.

Question 4: What are your plans for ensuring that agencies will expand from their three or four initial projects to eventually cover as much of agency operations as practical?

Answer: The OMB bulletin makes clear that in successive years, productivity improvement plans must include annual incremental additions of functions. The review of those plans by OMB should ensure that agencies expand their programs to cover virtually every activity in the agency.

Question 5: How would you respond to charges that this productivity program is just another effort to get agency employees to work harder; i.e., do more with less?

Answer: The program is not designed to encourage employees to work harder, but is designed to encourage them to help find ways to work smarter and therefore, to get the job done at less cost. The intent is to involve employees in finding answers to these questions: How can the tasks at hand be better organized, more efficiently staffed, and the work procedures and methods changed so that the task can get done as well, but less expensively? How can management act so as to remove barriers to efficiency that now exist? What might be automated to permit speedier and more accurate work? How can mistakes be avoided? How can we get accurate work? How can we get the work done in a more timely fashion? We do expect that the result of employee involvement in finding answers to these questions will make it possible to do more with less, but we do not think that that will mean that everyone will work harder. We recognize that an important element of this process is to set clear expectations about the levels of quantity and quality expected from employees. We believe most employees respond very positively to clear expectations and that the communication of those alone will help improve productivity substantially. The only way that one achieves long-term, sustained gains in productivity is through the active and sustained involvement of employees who know the work and know how to improve the way it is done.

Question 6: How much territory does this productivity initiative encompass? Will OMB be using it as a tool to assess agency management information systems and strategic planning processes, both of which are necessary for full implementation of a productivity improvement program?

Answer: We are primarily interested in results. We want to see real productivity gains and we want to be certain that they have occurred when they are claimed. We are, therefore, interested in what agencies say they plan to do, what their baseline or starting point is, what strategies they intend to employ to achieve their goals, and what documented results they are able to obtain. We are looking for accountability and documented results. While we are very interested in agency management information systems and strategic planning processes, we do not plan to tell agencies how to establish, maintain, or use such systems. We recognize that agencies must have such activities in place and that they must be of good quality and high utility to the agency, or the agency will not be able to mount an effective productivity program or accomplish productivity goals; but we want the agencies to own this program, and we believe they must design it and carry it out, and they must then be fully accountable to the President for the results.

Additional Questions for James C. Miller III
Submitted by Senator William V. Roth, Jr.

Annual Report Bill

Question 1: You support the concept of an annual management report required by statute but express concern about the reporting burden S. 2004 in its present form would impose on OMB. The following questions are intended to determine if agreement can be reached on basic principles.

a. Is it reasonable for Congress to expect OMB to report in accordance with a framework that would be consistent from year-to-year?

b. Is it reasonable for Congress to expect OMB to report each year on progress--or lack of progress--in implementing the previous year's agenda?

c. Is it reasonable for Congress to expect OMB to identify management problems and issues in addition to its major, Government-wide initiatives and accomplishments?

Answer: I agree that Congress can reasonably expect OMB to report annually in a consistent framework so long as we have enough flexibility to adapt the format to changing issues and problems. It is reasonable for Congress to expect OMB to report on progress or lack of progress in implementing the prior year agenda so long as such reports are not required to be so detailed as to constitute a burden on OMB or the agencies. It is also reasonable for Congress to expect a discussion of management problems and issues provided that we focus on the significant items and avoid getting bogged down in minutiae.

Question 2: Would you support combining the productivity, procurement, and information management reporting requirements in S.J. Res. 190 and existing law with this annual management report?

Answer: Yes, I would support the concept of combining the productivity and procurement reports with the annual management report to Congress. In fact, the FY 1987 management report covered productivity and procurement issues. I would also support including in the management report a description of agencies' information management activities that have contributed to the goal of productivity improvement. However, we would need to review carefully any specific proposals to change existing law before we could support them.

Additional Questions for James C. Miller III
Submitted by Senator William V. Roth, Jr.

Field Offices

Question 1: During your confirmation process you said you would insist that Congress be kept informed of agency actions to streamline their field offices.

a. Please explain what you meant by this statement. Did you mean advance notification? If so, how far in advance?

b. What actions have you taken to assure Congress will be appropriately notified?

Answer: The Administration's proposals for office closings have been and will continue to be communicated fully to Congress in agency budget requests and through our annual management report to Congress. In addition, proposed changes and supporting rationales are sent to appropriate committees of Congress. This process will give Congress substantial advance notice of agency actions.

Question 2: In the attachment to his testimony, Comptroller General Bowsher suggested, in lieu of enacting S. 1206 or H.R. 2401, that Congress consider whether its needs could be served by modifying the normal budget and oversight process, rather than by establishing a separate reporting requirement. He said, "For example, OMB could be required to report in its annual budget documents the specific field office closings and anticipated reorganizations being considered." Would OMB be amenable to this approach in lieu of the proposed legislation?

Answer: We oppose the two bills, S. 1206 and H.R. 2401, and the approach suggested by Comptroller General Bowsher. We support continued use of the existing budget and oversight process. We already report on office closings and reorganizations in the budget. As is current practice, if Congress needs more specific information the agencies can supply it. This approach will serve everyone better than adding more details to an already massive budget document.

Additional Questions for James C. Miller III
Submitted by Senator William V. Roth, Jr.

Inspector General Amendments

Question 1: What information do you have on the adequacy of the internal audit units at agencies which have audit units but do not have statutory Inspectors General?

Answer: The Office of Management and Budget has worked to ensure strong professional audit operations in both statutory and non-statutory Inspector General agencies for many years. OMB issued in 1983 Circular A-73 which details the duties and responsibilities of both statutory and non-statutory audit operations. These requirements and the standards issued through GAO's "Yellow Book" have encouraged professional and capable audit operations.

In addition, OMB, through the annual budget review process, has worked with both the statutory (through the PCIE) and non-statutory (through the Coordinating Conference) audit operations on resource allocations devoted to Inspector General functions. Through the budget process, OMB can assist agency audit units in determining audit coverage resource needs and seeing that these needs are met. In every case brought to our attention, OMB has worked with the audit operations head and agency management to reach an equitable solution. This type of support will continue.

Question 2: What information do you have as to the adequacy of the audit coverage at agencies which have no internal audit units at all?

Answer: In a report issued May 4, 1984, entitled, "Status of Internal Audit Capabilities of Federal Agencies Without Statutory Inspectors General," the GAO surveyed 99 agencies without statutory Inspectors General. Of this total, GAO found approximately 20 which had no audit unit coverage (see attached list).

The majority of those responding negatively to the GAO were Presidential commissions (11). The Congressional Budget Office, the United States Tax Court, the Administrative Conference of the United States, and the others are either legislative branch agencies or so small that the creation of an audit unit would be a waste of the taxpayers money. In some cases, like the U.S. Railway Association, agencies are able to contract with a statutory Inspector General to provide audit support. In all cases, however, the agencies are under the general oversight of GAO to provide audit coverage.

AGENCIES WITHOUT AUDIT COVERAGE

Administrative Conference of the United States
Advisory Commission on Intergovernmental Relations
Architectural & Transportation Barriers Compliance Board
Commission on Security and Cooperation in Europe
Committee for Purchase From The Blind & Severely Handicapped
Congressional Budget Office
Copyright Royalty Tribunal
Federal Labor Relations Authority
Franklin Delano Roosevelt Memorial Commission
International Trade Commission
Japan-United States Friendship Commission
Marine Mammal Commission
National Capital Planning Commission
National Commission on Libraries and Information Science
National Mediation Board
Navajo and Hopi Indian Relocation Commission
Office of the Federal Inspector, Alaska Natural Gas
  Transportation System
United States Holocaust Memorial Council
United States Tax Court
U.S. Railway Association

Source: GAO Report "Status of Internal Audit Capabilities of Federal Agencies without Statutory Inspectors General."

Question 3: OMB, through the years, has repeatedly reminded agency heads that they are responsible for assuring appropriate internal audit at their agencies. What has OMB done to assure that such agencies are complying with this objective?

Answer: OMB does not get involved in the detailed oversight or "micromanagement" of an agency's operation that would be required for this level of review. In special cases, OMB may request more detailed information such as agency audit plans.

In addition to setting policy and working with agencies on particular initiatives, OMB addresses specific problems as they arise. In particular, OMB has in the past year written to a number of small agency heads to remind them of the requirements of OMB Circular A-73 and of the importance of audit "independence" and a direct reporting relationship to the agency head.

Question 4: Comptroller General Bowsher, in the attachment to his statement, expressed concern about a provision in S. 2005 that would change the semi-annual reporting requirements for Inspectors General to report only each significant recommendation for which corrective actions have not been resolved, in lieu of corrective actions which have not been completed. How can the Congress be kept informed of the actions actually taken on these recommendations if S. 2005 is enacted in its present form?

Answer: Currently, the Inspectors General, as part of their management information systems, track all audit recommendations until they are resolved (when agreement is reached with agency management on action to be taken). Congress is currently kept apprised of all of these recommendations. The reporting requirements contained in H.R. 3077 and modified in S. 2005 call for the reporting of audit recommendations that are completed, rather than resolved; this change would place an additional tracking responsibility on the Inspectors General to oversee agency implementation of an IG's recommendation. S. 2005 has attempted to minimize this substantial tracking and reporting burden by allowing Inspectors General to report "to completion" only those recommendations which an IG deems "significant." This "tracking and reporting to completion" requirement should provide for improved reporting to Congress.

Additional Questions for James C. Miller III
Submitted by Senator William V. Roth, Jr.

Credit Management

Question 1: You have identified credit management as a high-priority initiative. Yet, our preliminary discussions with GAO indicate that since 1982, debts owed to the Federal Government have increased greatly, including an increase in non-tax delinquencies of 52 percent. In their 1984 reports, 11 Federal agencies identified debt collection as a material internal control weakness.

a. Given your debt collection initiatives, how can these loan delinquencies have increased so substantially?

b. What is being done to eliminate the 11 agencies' debt collection internal control weaknesses?

Answer: We recognized early in 1981 that there were serious problems throughout the entire credit cycle from the initial screening of a debtor to ultimate collection. The Debt Collection Act of 1982 gave the agencies new collection authority to aid in recovering delinquent debt. As reported by the President in this year's management report, we now have in place a comprehensive credit management program that establishes standards for the screening, award, servicing, and collection of all loans and accounts receivable.

a. Loan delinquencies, excluding foreign debt and foreign military sales, increased from $8.9 billion in 1982 to $12.7 billion in 1985, an increase of 43 percent. The primary source of the increase was the depressed agricultural economy. Agriculture loan debt increased 141 percent from $1.9 billion to $4.5 billion for the same period. If we exclude agricultural loans, delinquent loans increased by 17 percent.

While the delinquent amounts have increased since 1982, the rate of growth in delinquencies has decreased, as the following trend data show:

Trends in Delinquent Receivables

	FY 81	FY 82	FY 83	FY 84	FY 85
Total Delinquent	$29,772	$42,745	$43,276	$49,614	$59,190
Growth		43.57%	1.24%	14.65%	19.30%
Total Delinquent	$29,772	$42,745	$43,276	$49,614	$59,190
less IRS	$18,117	$27,310	$26,358	$29,746	$35,584
Nontax Delinquent	$11,655	$15,435	$16,918	$19,868	$23,606
Growth		32.43%	9.61%	17.44%	18.81%
Nuntax Delinquent	$11,655	$15,435	$16,918	$19,868	$23,606
less USDA	$ 2,106	$ 3,637	$ 4,893	$ 6,235	9,165
Delinquent-USDA	$ 9,549	$11,798	$12,025	$13,633	$14,441
Growth		23.55%	1.93%	13.37%	5.93%

- The 11 Federal agencies which identified debt collection as a material internal control weakness were unable to implement the Debt Collection Act because of delays in issuance of the Federal Claim Collection Standards by the General Accounting Office and Department of Justice. When the standards were issued in March 1984, rapid implementation began.

  - Interest and penalty fines on delinquent debt are being charged by all agencies.

  - Salary offset authority is being implemented by all agencies. About 135,000 Federal employees owing $275 million have been identified. Over $13 million has been collected.

  - Automated debt servicing is becoming more commonplace. HUD, SBA, and IRS have automated collection systems in place.

  - Five agencies have referred 750,000 accounts to IRS for offset of income tax refunds. About $48 million has been recovered through February.

  - Written-off debt is being reported to IRS to be considered as income for the debtor.

Question 2: What are the major impediments to implementing business-like credit management practices in the Federal Government?

Answer: The major impediment has been agency reluctance to use all the authorities provided by Congress in order to collect past due accounts. However, this is changing:

- Agencies have sent 2.3 million accounts to credit bureaus. These credit records make it difficult for an individual deliquent on a loan from one agency to secure additional credit from another.
- GSA has awarded contracts to four collection agencies to provide services for all agencies. About 32,000 accounts, valued at $160 million, have been placed so far, and we expect the placements to increase significantly in the months ahead.
- Plans are underway to pilot test the sale of selected loan assets to see if loan sales are effective. Thirteen loan programs will sell assets with a face value of $4.4 billion; we anticipate receipts of $1.7 billion in 1987.

Question 3: What can Congress do to facilitate your credit management initiatives?

Answer: We need legislative authority for the Attorney General to contract with private attorneys to litigate debt collection cases and reduce the backlog of cases pending at Justice. Currently, over 136,000 cases representing $4.6 billion in delinquencies are pending at Justice. During 1985, legislation was proposed to provide this authority.

There is presently an impediment to the sale of loan assets by the Economic Development Administration in legislation that requires the borrower's approval of the agency's sale of a loan. This is an unnecessary infringement on the agency's ability to manage the program.

Questions on Procurement Submitted by Senator Roth

Question 1: What steps have you taken to strengthen the procurement workforce, something you advocated during your confirmation process?

Answer: A very positive and, we believe, effective step has been taken to strengthen our procurement workforce. The Federal Acquisition Institute (FAI) in GSA (acting as executive agent of OFPP/OMB) has developed, in conjunction with OPM, a competitive exam which will allow the agencies of the Federal Government to effectively compete with industry for top college graduates entering the procurement workforce. Nearly 30,000 people have already signed up for this exam. OPM's testing of the exam's validity is proving it to be very positive.

We are also, through the FAI, developing the body of knowledge necessary to permit procurement personnel to successfully progress in a procurement career, and we are using that information to develop a Government-wide model curriculum and certification program which will initially be implemented in GSA. FAI is assisting agencies to establish career management programs as required by President Reagan's E.O. 12352.

The FAI is also surveying all procurement training now available in the executive branch and advising agencies on the need to eliminate duplication, share facilities, and upgrade materials. It will soon publish, moreover, a Directory of Academic Institutions which provide procurement education.

Question 2: What will be OMB's role in implementing the Packard Commission recommendations? Will you be taking a more active interest in Defense acquisition problems?

Answer: We will be fully involved in reviewing the work of the Packard Commission and in working with the Department of Defense to implement the Commission's recommendations. As far as Defense acquisition problems are concerned, we will indeed be taking a more active interest. As I've said on several occasions, improving the Federal procurement process is a priority program for me -- something I have a very special interest in pursuing.

Question 3: On the Contract Disputes Act amendments (S. 2006), Mr. Bowsher expressed the view that Section 5, which is intended to prevent contractors from pursuing duplicative hearings before a claim may be collected by administrative offset, is unnecessary. He said the possibility for misunderstanding could be eliminated by referring to the Federal Claims Collection Standards in the bill or its history. What are your views on this matter?

Answer: We strongly disagree with the Comptroller General's view. The Armed Services Board of Contract Appeals has already held that the Debt Collection Act of 1982 is applicable to claims arising under contracts subject to the Contract Disputes Act (DMJM Normal Engineering Co., ASBCA No. 28154, 84-1 BCA par. 17,226, March 2, 1984; Pat's Janitorial Service, Inc., ASBCA No. 29129, 84-3 BCA par. 17,549, July 25, 1984). We are currently litigating this issue very actively in the Claims Court (Cecile Industries, Inc. v. United States, No. 277-84C Cl. Ct. filed June 1, 1984). Given the unresolved nature of this issue, it would seem that the wiser course would be to seek a legislative solution which is clearly spelled out in the statute and not trust that a reference in the legislative history will suffice. Thus, we urge that Section 5 of the Contract Disputes Act amendments remain as it is and be enacted.

Additional Questions for James C. Miller III
Submitted by Senator Eagleton

Financial Management

Question 1: GAO has written at least two reports critical of implementation of the Federal Managers' Financial Integrity Act of 1982. The most recent was published in December (GAO/AFMD-86-14). Mr. Bowsher told the Committee that further legislation will probably be necessary to gain control of agency accounting systems. What is OMB currently doing to obtain information on the 53 percent of Government accounting systems GAO says are not in compliance, or not known to be in compliance, with GAO standards?

Answer: The OMB Financial Integrity Task Force is working with affected agencies to streamline systems and bring all systems into conformance. Under OMB Circular A-127, "Financial Management Systems," all agencies must upgrade their accounting systems to comply with GAO standards, as implemented through the circular. The OMB circular goes well beyond GAO standards by calling for:

- Consolidation to one system per major agency.
- Use of the best of acceptably priced contemporary technology.
- Implementation of standard Federal accounting processes.
- Five-year plans for bringing agency systems into conformance.

Question 2: Has OMB taken any new steps since the GAO report was published?

Answer: OMB has taken two significant steps since issuance of the GAO report.

- o OMB has established an "off-the-shelf" financial management systems clearinghouse to increase agency access to economical, highly capable financial software that can be installed quickly to bring major improvements in agency financial systems.

- o Under the generic accounting system project, the Department of Transportation has developed a standard general ledger chart of accounts for Government-wide use.

Question 3: Do you anticipate that OMB will now strengthen its reporting guidance to the affected agencies?

Answer: This year OMB plans to strengthen reporting guidance under the Federal Manager's Financial Integrity Act in several ways:

- o Agencies will be required to report in a more focused and quantitative way on their material weaknesses in internal control and on their nonconformance with accounting principles.

- o Agencies will be required to emphasize tracking and correction of material weaknesses and areas of nonconformance.

- o Reporting guidance for FY 1986 will be issued in May, rather than in the Fall as in previous years.

Additional Questions for James C. Miller III
Submitted by Senator Eagleton

Inspector General Act Amendments

Question 1: I was pleased to learn you support expanding the concept of the Inspector General Act to smaller agencies. In your more detailed comments to the Committee, you suggest that one way to alleviate your concern about "unduly burdensome" requirements of the bill (S. 2005) might be a "two-tier approach." Would you explain that statement?

Answer: Under the "two-tier" approach the existing statutory Inspectors General would continue to have all the powers, duties, and authority delegated to them by the 1978 IG Act. the statutory audit units proposed in S. 2005 and H.R. 3077 would represent the second tier and would have only some of the powers, duties, and authority entrusted to the statutory IGs.

We support the intent of S. 2005, which is to ensure the independence and effectiveness of internal audit units throughout the Federal Government. We are concerned, however, that the duties and powers contained in section 6 of the bill will overburden the proposed audit units and hamper their effectiveness. Many agency audit staffs are extremely small and would not be equipped to perform the new duties. We oppose those aspects of S. 2005 which would grant sweeping new authorities to virtually every Federal establishment regardless of size, agency function, and applicability.

Question 2: The current OMB management report, submitted with the FY 1987 budget, is full of praise for the accomplishments of statutory inspectors general. The Treasury and Justice Departments are the only large agencies that do not now have statutory inspectors general in place. Do you think these two large Departments should be included in the bill, as they are in the House version (H.R. 3077)?

Answer: We oppose the creation of statutory Inspectors General in the Departments of Justice and Treasury, as outlined in H.R. 3077, because of the unique missions of both of these Departments. The mission of the chief law enforcement official and the chief financial officer of the country should be monitored and overseen only by the President and Congress.

Additional Questions for James C. Miller III
Submitted by Senator Eagleton

Procurement Reform

Question: The Administration's proposed Simplified Competitive Acquisition Technique Act (S. 2008) is intended to shorten the procurement process for goods and services worth between $25,000 and $5 million. Several of my constituents in small businesses have told me that current deadlines are difficult to meet for all but simple or "repeat" procurement quotes; they say that the deadlines proposed in the bill would be impossible to meet. The effect on competition for these small contracts could be disastrous. Where else in the small procurement process could time be saved?

Answer: The interagency task group that assisted in developing the Simplified Competitive Acquisition Technique (SCAT) proposal conducted a comprehensive review of all elements of the procurement administrative lead-time (PALT) for procurements that would be affected by SCAT, including the deadlines for submission of proposals. These deadlines are dictated by the requirement that proposed procurements be published in the Commerce Business Daily (CBD). The proposed reduction in CBD publication deadlines is only 25 days, out of the total of 150 days of PALT that can be saved under the proposal. The 125 days not associated with CBD publication have been extracted from the administrative process. Improved statements of work and specifications, plus limitations on administrative reviews, oral and written discussions, size of requests for proposals, and size of technical proposals are a few of the improvements which will save time under the proposed system. We believe these improvements will offset any negative impact on small businesses resulting from reduction in time permitted to submit proposals. We will be pleased to work with the Committee to resolve these concerns.

Additional Questions for James C. Miller III
Submitted by Senator Albert Gore

__Question 1__: Mr. Miller, I have long had an interest in improving the Government's management ability by improving its ability to monitor long term trends in society, especially in the economy. I believe, in Government, we tend only to think through the next fiscal year, or to the next election, rather than looking into the future and planning accordingly.

The area of technology is the most cogent. For example, in the area of human genetic engineering, when one examines the impact of that technology on our society, one finds that our laws and regulations do not even begin to recognize the existence of capability and what its effect on the fields of medicine, occupational hygiene, management of hazardous waste, and many others will be.

In the economic area as well, I am sure you will agree that the Government rarely even attempts to predict long term economic trends and thus, is being constantly surprised.

Do you think an office whose job it would be to monitor critical trends and assess possible alternatives would be useful as a management tool?

__Answer:__ I believe it is a mistake to assume that, if the Government would only attempt to predict long term economic trends, it could avoid being surprised. Although the Government is often surprised by economic events, this is not the result of ignoring obvious long term trends that any newspaper reader is aware of. The surprises happen because accurate economic forecasting is very difficult to do. That would probably be even more true of social forecasting. Simply trying to predict the future will not guarantee accurate predictions.

I see no need to create an office to monitor such trends. The Government already devotes considerable resources to the task of monitoring economic trends and forecasting economic developments. Such efforts are constantly underway in all the agencies involved in making economic policy including OMB, the Federal Reserve, the Department of Commerce (whose Bureau of Economic Analysis keeps the Nation's books -- the National Income and Product Accounts), the Department of Labor, the Treasury Department, and many others. One agency in particular, the President's Council of Economic Advisers, exists for the primary purpose of economic analysis and forecasting. Congress has its own Congressional Budget Office to provide it with an independent assessment of economic trends. In short, many parts of the Government are already studying the economy and attempting to predict long term economic trends. Creating an agency to monitor economic trends would simply be adding a layer to the multitude of agencies that already perform this function.

Question 2: Mr. Miller, do you forsee any problem instituting the multiple reforms offered in the Chairman's package?

Even though I am new to the committee, I know that this committee, under Senator Chiles' leadership, created the Office of Federal Procurement Policy (OFPP). While the office was created, there have been some questions as to how much real authority this office was given. Would a similar fate befall the Chairman's proposals, wherein the reforms occur on paper, but not in reality?

Answer: If the Chairman's package is passed by the Congress, I do not foresee any problems instituting these multiple reforms. I would point out that the Chairman's package represents significant elements of the President's productivity improvement program established by Executive Order 12552, signed on February 25, 1986. If enacted, these reforms would have high priority for expeditious implementation. We believe that the Office of Federal Procurement Policy has sufficient authority to effectively guide the implementation of the procurement reform initiatives. In fact, plans are currently underway to institute the reforms contained in the Simplified Competitive Acquisition Technique Act (S. 2008) that can be carried out administratively. We also have several unique procurement test proposals which can be carried out if the Congress passes the Procurement Test Act of 1986 (S. 2008). In the past, the Office of Federal Procurement Policy has been very effective in a number of procurement improvement initiatives. Its oversight of the development and implementation of the Federal Acquisition Regulations contributed to the smooth transition to a single system of procurement regulations for all agencies. The development and submission of the Administration's Proposal for a Uniform Federal Procurement System by OFPP laid much of the groundwork for one of the most significant statutory improvements to the Federal procurement system in 30 years. That legislation, which was produced by this Committee, is P.L. 98-369, "The Competition in Contracting Act of 1984." During fiscal years 1984 and 1985, OFPP played an active role in OMB's management improvement program for executive branch agencies by providing guidance and analysis of the procurement reform aspects of the program. Thus, upon passage of these proposals, OFPP would begin implementation with the full support and leverage created by the management review process and the budget development process. During these processes, agencies will be expected to report on their progress for instituting these reforms and demonstrate budgetary savings resulting from their adoption.

I am convinced that a strong and viable OFPP will continue to play a vital role, not only in the productivity improvement program, but as a leader in improving the Federal acquisition process.

Questions on Procurement Submitted by Senator Cohen

Simplified Competitive Acquisition Technique

Question 1: Mr. Miller, the Administration's proposal to simplify the competitive acquisition process, known as SCAT, represents a novel approach toward shortening ever-expanding procurement leadtimes. While some of the SCAT provisions need revision, I agree with this approach in concept and commend the Administration for its initiative. For the record, would you explain to me the rationale underlying SCAT and why you believe such a simplified process is necessary?

Answer: The rationale underlying SCAT is that there is a critical need to reduce the time it takes to award a contract. We need a system that will improve our ability to deliver goods and services to users and their delivery of programs to the public. The current system is too complex, overregulated, and contains too many checks and balances, which actually impede the use of efficient and economical procurement practices. We know from experience that long lead-times add to uncertainty, risk, and expense -- and often lead to non-competitive actions.

We believe that in an environment of budget constraints and deficit reduction we must devise more efficient ways of conducting the business of the Federal Government. We are convinced that use of SCAT will produce cost reductions by increasing competition among vendors and improving the productivity of the acquisition workforce.

Question 2: SCAT would apply to contracts between $25,000 to $5 million, which account for the vast majority of actions over the small purchase threshold. Do you foresee SCAT being used for all eligible contract actions or, primarily, as an alternative procedure for those contracts that would otherwise be awarded noncompetitively based on "unusual and compelling" circumstances? How many contracts were awarded noncompetitively last fiscal year because of "unusual and compelling" circumstances and what percentage of these contracts could have been competed, in your judgment, had SCAT been in place?

Answer: Our target for the use of SCAT is all eligible procurement actions which are suitable for competitive negotiations such as those where the Government's requirements are reasonably well defined, and where extensive discussions and negotiations are not required. Of course, we anticipate that SCAT will provide an alternative approach to the award of noncompetitive contracts based upon "unusual and compelling" circumstances. The fundamental cause for use of "unusual and compelling" circumstances in many cases is lack of sufficient time to follow standard competitive procurement procedures.

During fiscal year 1985, there were 9,952 contract actions based upon "unusual and compelling" circumstances or public exigency exception to formal advertising, which existed prior to passage of the Competition in Contracting Act of 1984. Total dollars spent through these actions for fiscal year 1985 were $5.8 billion. Although we have not arrived at an estimate of the number of these actions which could have been competed, we are convinced that many could have been competed if a SCAT system had been available.

Question 3: One critic, looking at SCAT from a private sector perspective, maintains that:

> SCAT unfairly places the burden of shortening the procurement cycle upon the private sector. The length of this cycle, however, is largely the result of a cumbersome process internal to the procuring agencies. The executive departments should first, streamline -- and automate, if necessary -- their own part in the acquisition process. If that is done rigorously, there will be no real need for SCAT.

How would you respond to this criticism?

Answer: If we are to successfully shorten the procurement cycle without a loss of quality, we must look to all aspects of the system. While it is true that much of the length of the current cycle is attributable to administrative requirements, we think that a cooperative effort by the executive branch agencies, the Congress, and the private sector is the best way to achieve the totality of economies and efficiencies offered by SCAT. A cursory review of the proposed system reveals that only a small part of the burden would be placed on the private sector, while the significant effort rests with the agencies. In short, the private sector is being asked to respond to a solicitation in a shorter period of time for the SCAT class of procurements, while the agencies will be required to expedite and improve the quality of all phases of the cycle to achieve an approximate time saving of 65%. Of course, agencies are actively engaged in streamlining and automating the acquisition process to achieve efficiency and economy. We believe that a systematic approach such as the SCAT is the best way to achieve this goal.

Question 4: I understand that several agencies have already taken steps to simplify their competitive acquisition processes. To ensure uniformity across Government, you have considered using OFPP's policy directive authority to implement those portions of SCAT in the Federal Acquisition Regulations that do not require statutory change. Outside of the three or so changes to existing law you've proposed under SCAT, which I discuss below, why do you believe that SCAT needs a statutory base, considering that simplification can be achieved, for the most part, administratively?

Answer: There are a number of efforts ongoing with the agencies to simplify the acquisition process, with several resulting from announcement of the SCAT proposal. There is frequent communication between these agencies and OFPP concerning their progress. We are considering use of OFPP directive authority to implement those portions of the SCAT system which can be implemented administratively and have not ruled out this approach. However, we believe that a systematic approach, which includes both the necessary legislative and administrative elements, is the best route to success in reducing the acquisition cycle. The recognition by the Congress, not only of the need for legislative changes, but of the importance of the administrative revisions, can best be evidenced by a statutory adoption of the system.

Question 5(A): The proposed statutory changes contemplated under SCAT raise, in my judgment, certain questions. First, SCAT would reduce time period requirements for publication of proposed procurements in the Commerce Business Daily from 45 to 20 days. Do you believe that reducing the CBD time periods by more than half leaves sufficient time for a prospective bidder to send for and receive a solicitation in the mail, prepare a bid, and transmit it to the agency before the deadline. If not, is a reduction of 25 days in an otherwise lengthy procurement process worth what many small business organizations anticipate will be a significant loss of competition?

Answer: Considering that procurements under the SCAT system will have a standardized shortened Request for Proposal (RFP) format and a clear and concise statement of work to which offerors will respond, we do not believe that reducing the Commerce Business Daily publication time from 45 to 20 days will adversely affect small business contractors. To facilitate receipt of RFP's by vendors, agencies will honor telephone requests for copies of RFP's which will include all necessary documents. In addition, SCAT procurements will be published in a separate section of the CBD for ease of recognition by vendors.

We do not believe that use of SCAT will result in loss of competition. It should be noted that procurements will be thoroughly screened before being processed under the SCAT procedures to ensure that they will be fully competitive. If, for any reason, a proposed procurement doesn't qualify for SCAT handling, it will be conducted under the traditional procurement process.

Question 5(B): Second, SCAT would require that protests against procurements must first be filed with the agency contracting officer prior to any protest action being taken outside the agency. Do you believe that agency contracting officers are likely to change their position on protested procurements? Some critics speculate that, more often than not, agency contracting officers will defend their original decision. If that's the case, would this SCAT requirement actually add to, rather than reduce, procurement lead times? How does this provision affect the filing requirements before the General Accounting Office and the General Services Board of Contract Appeals, since protestors can only proceed after the agency contracting officer has rendered a decision?

Answer: On the basis of agency experience, each year a significant number of protests are avoided through the simple process of good communications between the concerned offeror and the contracting officer. We believe that formalizing this communication process for SCAT procurements is in the best interest of the contractors and the Government. In many cases, without this communication, contracting officers are unaware of the basis for the protestor's complaint until the protest is filed. Consequently, we don't think that contracting officers would simply defend their original positions if given the opportunity to resolve a potential protest before it is filed. The contractor can be advised of the basis for a particular decision and the contracting officer has an opportunity to correct a deficiency which he may not have otherwise been aware of.

It's worth noting that neither contracting officers nor their agencies gain anything by having their procurements held up by protests. We believe that there is a strong motivation on the part of contracting officers to solve potential protests. To this end, the proposed system would also require a thorough debriefing of unsuccessful offerors as to why they did not receive an award.

Although the SCAT system would require that protests be filed first with the contracting officer, if a protester is dissatisfied with the contracting officer, a further protest to the General Accounting Office or the General Services Board of Contract Appeals would be permitted.

In all cases, the procurement would be held in abeyance until the protest is decided. We do not intend, of course, to eliminate the stay provisions regarding protests under the Competition in Contracting Act of 1984.

Question 5(C): Finally, SCAT would prohibit the use of pre-award audits. In light of the plethora of spare parts controversies that, to this day, continue to make news, this provision appears to run contrary to the prevailing view that every effort should be made to ensure price reasonableness. Why do you believe that pre-award audits are unnecessary? Is there a trade-off between reducing procurement lead times and making sure that the Government is getting its money's worth.

Answer: One of the central elements of the SCAT proposal is the elimination of pre-award audits for SCAT procurements. The lead time for pre-award audits is presently 8-10 weeks. The elimination of pre-award audits does not run contrary to the prevailing view that every effort should be made to ensure price reasonableness. The key to the effectiveness of this proposal is competition. The spare parts controversies arose out of non-competitive circumstances. Existing law and regulation provide for determination of a fair and reasonable price through competition. All SCAT procurements will be initiated on the basis that competition will be obtained. Upon receipt of proposals, contracting officers will be able to ascertain if competition exists and proceed with negotiations of a fair and reasonable price leading to an award. The SCAT system does not preclude the contracting officer from obtaining certified cost or pricing data to support the price reasonableness determination.

In the event that the expected competition does not materialize, the contracting officer must obtain concurrence of the agency Competition Advocate before proceeding. Depending upon the circumstances, the contracting officer may proceed to negotiation and award or revert to the traditional procurement procedure and obtain a pre-award audit.

There is no loss of pricing integrity under the SCAT system as a trade-off for reducing procurement lead times so long as the competitive circumstances are maintained. That's why we will require that only highly qualified contracting officers be assigned to SCAT procurements.

Question 6: The three legislative changes proposed under SCAT, which have been subject to considerable criticism, constitute only a portion of the simplification proposal. Would the SCAT effort still be meaningful if these changes to existing law were not adopted? Would you be amenable to modifying the proposed legislative changes to address the concerns raised?

Answer: While we believe that the legislative changes proposed under SCAT are important to any system of procurement simplification, we recognize that they are controversial. We also believe that if those who question the validity of these three proposals would view them in the context of the system, many of the criticisms would be assuaged. We think it's necessary to address all aspects of the process to achieve effective procurement simplification. In summary, the SCAT effort would remain meaningful without these changes in existing law, but less so. Of course, we would be pleased to work with the Committee in addressing the concerns raised and in making modifications to the proposed legislative changes, where necessary.

Office of Federal Procurement Policy

Question: Last September, you indicated during your confirmation hearing that you were committed to recruiting and recommending to the President an Administrator for the Office of Federal Procurement Policy, a position which has been vacant for over a year now. While I understand that efforts have been made to fill this slot, the Administrator position remains vacant, as do all but one of the Associate Administrator positions. I encourage you to continue the search, since the office lacks the leadership and senior staff necessary to operate effectively. Would you update me on the latest OFPP developments and give me the date by which you expect the office to be fully operational?

Answer: As you have noted, there are a number of key vacancies on the OFPP staff and we have begun the process of recruiting competent replacements. Several of the positions - including two at the Associate Administrator level - have been advertised, selection panels have been assembled, and the process of screening candidates has begun.

In the meantime, we are continuing our efforts, as I noted at the hearing, to identify a fully qualified candidate for the position of Administrator for Federal Procurement Policy. While its not possible to provide a precise date by which all these personnel actions will have been concluded, I expect that the key positions in the office - including that of the Administrator - will have been filled within two to three months.

EXECUTIVE OFFICE OF
THE PRESIDENT
OFFICE OF MANAGEMENT
AND BUDGET

MANAGEMENT OF THE UNITED STATES GOVERNMENT

FISCAL YEAR

1987

Part 1

THE PRESIDENT'S MANAGEMENT MESSAGE

The budget I am submitting offers a blueprint for reducing the deficit by curbing the growth of Federal spending without weakening our ability to carry out essential Federal responsibilities. One means of furthering this goal is to increase the cost-effectiveness of essential programs through improved management, enhanced productivity, and consolidations or diversion of activities now provided by the Federal Government.

My administration has devoted particular attention to improving the way the Federal Government's vast resources are managed. Of course, good management does not always yield immediate benefits, tends to be complex to define and implement, and does not easily capture the imagination of the public. Nevertheless, its pursuit is vital, and we shall be unfailing in our efforts.

In 1980, I promised the American people not only less government, but better government. To meet the goal of better government, in 1982 I initiated Reform '88—a program designed to modernize a Government that, in many respects, still relied upon technology and processes more appropriate to the 1960's than the 1980's. Now in its fourth year, Reform '88 has demonstrated that sound business practices can be brought to bear on Government programs, and yield positive results.

Already the results of Reform '88 are beginning to pay dividends to the American people. Let me just cite a few highlights of our recent efforts:

- Installation of the first comprehensive system to manage the Government's $10 trillion annual cash flow. One impressive result is that 99% of all payments to firms doing business with the Government are made on time. Previously, 30% were made too late and 45% too early. Another result is the replacement of cardboard checks by multicolored paper checks that are lighter in weight, easier to store, and more difficult to counterfeit.
- Initiation of a comprehensive program to manage better the $257 billion Federal loan portfolio—which has $24 billion in delinquent accounts.

- Coordination of our efforts to reduce waste and fraud, resulting in an estimated $63 billion in improved use of funds since 1981.
- Elimination of useless or duplicative Federal publications—amounting to 150 million copies per year, or 25% of the total.
- Reduction of some 500 million hours required to complete Government forms.
- Avoidance of $627 million in annual Government travel costs.
- Introduction of a simplified system that eliminates nearly 30,000 pages of procurement regulations.
- Curtailment of non-Defense civilian employment by over 78,000 full-time equivalents over 4 years, and
- Initiation of other service improvements, such as obtaining passports in 10 days rather than 4 weeks, and issuing Social Security cards in 11 days instead of 6 weeks.

The initial thrust of Reform '88 was to fix the most obvious problems first—controlling administrative costs, checking the spread of waste and fraud, reducing essential service backlogs, and installing modern financial management systems to control the cash flow and assets of the world's largest spender and lender. We have now embarked upon the tougher challenge that is the principal focus of this report: extending those ideas to a broader range of services the Government provides to the public. Accordingly, we expect significant additional improvements in service delivery and cost savings as time goes on.

Management initiatives during calendar year 1985 reflected this evolution of emphasis. Consider the following measures designed to improve service delivery:

- *Productivity.* A comprehensive program was announced to boost employee productivity by 20% in selected Federal programs.
- *Payment Integrity.* New regulations were issued to help ensure that only those eligible receive entitlement payments, releasing program funds for others who qualify.
- *Procurement Reform.* A legislative proposal for a Simplified Competitive Acquisition Technique (SCAT) was advanced to reduce from an average of 224 days to 85 days the time it takes the Government to procure goods and services worth $28 billion annually.
- *Credit Management Standards.* Exacting standards were established covering every aspect of credit management; the objective was to put rigor into Federal credit practices and make the Government truly a "lender of last resort."
- *Cash Management.* New regulations were issued to ensure adoption of the most effective cash management techniques throughout the Government.

- *Information Resources Management.* A broad policy framework was established for more effectively managing the Federal Government's information resources, which amount to over $15 billion in cost and involve over 100,000 employees.

In addition, to make sure Reform '88 is carried out in the most effective manner, we've established two well-organized, interagency groups: the President's Council on Integrity and Efficiency (PCIE), and the President's Council on Management Improvement (PCMI).

The PCIE was created in 1981 and charged with spearheading the attack on fraud, waste, and abuse. This effort has been a special priority from the very beginning of my administration. Not only do fraud, waste, and abuse drain scarce resources, but their frequently exaggerated representation plays to the worst suspicions of the public. Since its creation, the PCIE and the agency Inspectors General who comprise it have reported over $63 billion in improved use of funds; moreover, they have reported 14,291 successful prosecutions and 14,146 administrative actions against Federal and contractor employees who have taken unlawful advantage of the Government. While fraud, waste, and abuse have not been eliminated entirely, we have made great strides toward winning the battle.

The PCMI is composed of the key management officials in large agencies and is leading the implementation of management improvements as well as looking ahead to identify possible problems and opportunities for the future. The Council also has overseen such major management initiatives as reducing the number of payroll and personnel systems, and is currently focusing on improved financial systems and implementation of my productivity improvement program.

Another important contributor to progress toward better management is the President's Private Sector Survey on Cost Control (PPSSCC), commonly known as the Grace Commission. The PPSSCC was established in 1982 to obtain advice from business leaders on where and how management of the Federal Government might be improved.

Included in this volume is a status report on the disposition of 2,478 PPSSCC recommendations. We have accepted or are in the process of implementing some 1,741, or over 80%, of the 2,160 unduplicated recommendations the Commission has produced. As with the PPSSCC recommendations proposed with the 1986 budget, all of those proposed with the 1987 budget require Congressional action to implement. The PPSSCC recommendations proposed with the 1987 budget have the potential of approximately $69 billion in budget savings through 1991.

Our management emphasis has also been geared toward improving the efficiency of Government at all levels. One of the principal goals of my administration has been to streamline and restore the proper balance between Federal, State, and local roles. Initially undertaken in 1981 and greeted with skepticism, this program of "Federalism" has since garnered praise from the General Accounting Office, various professional and academic organizations, and, most importantly, from the States themselves. Since 1981, when 58 categorical programs were consolidated into 9 block grants, Federal paperwork burdens have been reduced from about 6.5 million hours annually to less than 600 thousand.

In part because of this success, I am recommending in this year's budget that additional specific Federal endeavors be turned over to State or local authorities. Provisions are made for additional block grants, especially in the areas of transportation and environmental protection; further relief from regulatory burdens; and simplification of requirements common to all agencies.

Last year we stated that support of Congress would be critical to full implementation of the administration's management improvement program. That support grows more necessary with each passing year. Congress now has before it 18 legislative proposals which fall into five categories: (a) reorganization, (b) prevention of fraud, (c) payment integrity and improved financial procedures, (d) procurement, and (e) reduction in regulatory and paperwork burdens.

In the months ahead, we will transmit to the Congress additional proposals designed to complete the management legislative agenda:

- The Intergovernmental Financing Act of 1986 would establish general guidelines to assure that States and the Federal Government accord each other the same equitable treatment with regard to the timing of transfers and the management of Federal funds;
- Amendments to the Truth in Negotiations Act would strengthen the Government's ability to enforce the Act, particularly with regard to a false statement by a contractor; and
- The Payment Integrity Act of 1986 would build on the 1984 Deficit Reduction Act's income and eligibility verification provisions to further reduce abuse in entitlement programs.

I urge the Congress to enact these proposals, as well as those submitted in 1985. In addition, I urge the removal of other barriers to better management, such as employment floors, prohibitions on the reform of field structures, and obstructions to cost comparisons with the private sector. These and other impediments make management reforms more difficult to effect and cost taxpayers and service recipients very dearly.

Of course, Congress already has enacted many key pieces of legislation contributing to effective management—particularly the Debt Collection Act, the Deficit Reduction Act, and the Federal

Managers' Financial Integrity Act. We look forward to more progress in the immediate future.

Reform '88 is an ambitious management improvement program. Already it has had much success. But many items on its long-term agenda have not been achieved, and we must not rest until these reforms have been fully implemented.

The pressing need to reduce the deficit, and hence Federal spending, lends impetus to the pursuit of good management. But even absent the present fiscal difficulties, improved management would be a high priority for this administration. The Constitution is rooted in certain fundamental ideas, among which is the people's right to presume a capable, efficient Federal Government in return for taxes duly paid. It is their birthright, and affirming it will be one of my legacies.

RONALD REAGAN

FEBRUARY 5, 1986

THE WHITE HOUSE

Office of the Press Secretary

For Immediate Release February 25, 1986

EXECUTIVE ORDER 12552

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PRODUCTIVITY IMPROVEMENT PROGRAM FOR THE FEDERAL GOVERNMENT

By the authority vested in me as President by the Constitution and laws of the United States of America, including the Budget and Accounting Act of 1921, as amended, and in order to establish a comprehensive program for the improvement of productivity throughout all Executive departments and agencies, it is hereby ordered as follows:

Section 1. There is hereby established a government-wide program to improve the quality, timeliness, and efficiency of services provided by the Federal government. The goal of the program shall be to improve the quality and timeliness of service to the public, and to achieve a 20 percent productivity increase in appropriate functions by 1992. Each Executive department and agency will be responsible for contributing to the achievement of this goal.

Sec. 2. As used in this Order, the term:

(a) "Productivity" means the efficiency with which resources are used to produce a government service or product at specified levels of quality and timeliness;

(b) "Services" means those functions and activities performed by the Federal government to achieve program objectives;

(c) "Common agency functions" means those functions which are found in more than one agency, such as awarding grants or loans to individuals or institutions, providing direct benefit payments, processing claims, or furnishing health care;

(d) "Common government functions" means those functions that are common to every agency, such as administrative services;

(e) "Measurement system" means both the specific measures used to determine whether standards of quality, timeliness, and efficiency of services are being met, and the procedures for the collection and reporting of data resulting from application of productivity measures;

(f) "Organizational performance standard" means a statement which quantifies and describes the desired level of quality, timeliness, and efficiency of services to be provided by an organization;

(g) "Management review" means the review by the Director of the Office of Management and Budget, as part of the budget process, of agency accomplishments and plans for management and productivity improvements.

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Sec. 3. The head of each Executive department and agency shall:

(a) Use the agency's planning process to review current functions, develop agency goals and objectives for improvement in services, and to identify those functions which offer the most significant opportunity for major gains in quality, timeliness, and efficiency.

(b) Develop and submit annually to the Office of Management and Budget a productivity plan. Each plan shall conform to the policy guidance issued by the Director of the Office of Management and Budget, pursuant to Section 5 of this Order, and shall:

(1) set forth the agency's productivity goals and objectives;

(2) target priorities for the year, and expand coverage each subsequent year to additional appropriate functions and programs, with the objective of broadest possible coverage on all appropriate functions by 1992;

(3) describe the proposed actions designed to make the agency's operations and delivery of services more efficient and responsive;

(4) describe the methods, including efficiency reviews and cost comparisons with the private sector, that the agency will use either to improve its own service, or to make use of commercial services available in the private sector when it is economical to do so; and,

(5) describe the measurement systems to be used by the agency to gauge quality, timeliness, and efficiency.

(c) Implement the productivity program after the management review by the Director of the Office of Management and Budget as provided in Section 6.

(d) Assess annually the agency's progress toward achieving objectives and priorities, including documented gains and cost savings. This assessment will form the basis of the agency's report to the Domestic Policy Council as required by Section 4.

(e) Designate a senior official responsible for guiding the agency's productivity improvement program;

(f) Inform agency managers and employees that they are expected to be responsible for improvements in the quality, timeliness, and efficiency of services;

(g) Encourage employee participation in the productivity program through employee training, incentives, recognition, rewards and by taking actions to minimize negative impacts on employees which may occur as a result of the productivity program.

Sec. 4. The head of each Executive department and agency shall report annually to the President through the Domestic Policy Council on accomplishments achieved under the plan.

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Sec. 5. The Director of the Office of Management and Budget is authorized to:

(a) Develop and promulgate goals, policies, principles, standards, and guidelines for the effective administration of this Order by Executive departments and agencies;

(b) Identify and propose the elimination of statutory barriers that inhibit opportunities to make improvements in productivity; and

(c) In consultation with the agencies, select and develop organizational performance standards for those common government and common agency functions that are appropriate targets for improvement in quality, timeliness, and efficiency.

Sec. 6. The Director shall review, through the management review process, each agency's productivity plan based upon the requirements and guidance issued pursuant to Section 5 of this Order. Nothing in this subsection shall be construed as displacing agency responsibilities delegated by law.

Sec. 7. The Director of the Office of Management and Budget shall submit to Congress, in conjunction with the President's budget, a report on productivity plans and accomplishments of the agencies and the government as a whole.

Sec. 8. The Director of the Office of Personnel Management shall:

(a) review incentive practices and programs and other personnel policies and practices which relate to the productivity of the Federal work force and make or recommend such changes as will support productivity improvement;

(b) develop programs to minimize negative impacts on employees; such programs should include, among others, continued development of retraining and job placement alternatives; and

(c) develop and implement training programs for Federal employees to assist them in their performance of productivity improvement tasks.

The Director of the Office of Personnel Management will report to the Office of Management and Budget on actions taken pursuant to this Section.

RONALD REAGAN

THE WHITE HOUSE,

February 25, 1986.

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EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

BULLETIN NO. 86-8

TO THE HEADS OF EXECUTIVE DEPARTMENTS AND ESTABLISHMENTS

SUBJECT: Productivity Improvement Program for the Federal Government

1. Purpose. This bulletin provides guidelines for the development, implementation and assessment of agency productivity improvement programs in accordance with Executive Order 12552, dated February 25, 1986. The Bulletin describes the requirements of the program; provides start-up instructions for the first year of the program; provides guidance for the development of productivity plans and the implementation and assessment of the program; and specifies reporting requirements.

2. Background. Executive Order 12552 establishes a comprehensive program for the improvement of productivity in executive departments and agencies and sets a goal of 20% productivity improvement in appropriate functions by 1992. Section 5 of the Executive order places overall direction of the program with OMB and authorizes the Director to set productivity goals, policies, principles, standards, and guidelines for the administration of the order.

3. Coverage. This Bulletin applies to the executive agencies that are listed in Attachment A. Those agencies not covered by this Bulletin are encouraged to adopt voluntarily productivity improvement programs to enhance the quality, timeliness and efficiency of their operations. Formal participation in the program for these other agencies is expected to occur later, at which time guidance will be tailored for that purpose.

4. Definitions. The following definitions are used in relation to the productivity improvement program:

   Productivity means the efficiency with which resources are used to produce a government service or product at specified levels of quality and timeliness;

Services means those functions and activities performed by the Federal Government to achieve program objectives;

Common government functions means those functions that are common to every agency, such as administrative services;

Common agency functions means those functions which are found in more than one agency, such as awarding grants or loans to individuals or institutions, providing direct benefit payments, or furnishing health care;

Measurement system means both the specific measures used to determine whether standards of quality, timeliness, and efficiency of services are being met, and the procedures for the collection and reporting of data resulting from application of productivity measures;

Organizational performance standard means a statement which quantifies and describes the desired level of quality, timeliness and efficiency of services to be provided by an organization; and

Management review means the review by the Director of the Office of Management and Budget, as part of the budget process, of agency accomplishments and plans for management and productivity improvements.

5. Relationship of the Productivity Improvement Program to the President's Management Improvement Program (Reform 88). The productivity improvement program is an integral part, though a subset, of the larger Reform 88 program. It requires agencies to increase their emphasis on enhancing the efficiency, quality, and timeliness with which they produce outputs and deliver services to the public. The majority of other Reform 88 initiatives have focused on the improvement of internal or administrative areas, whereas the productivity improvement program emphasizes improvements in an agency's delivery of services.

6. Agency Responsibilities

A. Formal Establishment of Program. Each agency will establish a productivity improvement program upon issuance of this Bulletin. The Secretary or agency head will designate a senior official to coordinate the agency's productivity improvement program, oversee the implementation of OMB and agency policy and guidance, and promote productivity improvement activities and initiatives. Program plans, progress, and results will be reported directly to the agency head.

Productivity improvement is not just the responsibility of the head of the agency or the Assistant Secretary for Management or an office of productivity improvement, but it is the responsibility of every program manager and every employee. With this in mind, the agency should establish an appropriate structure for the program that will a) ensure agency-wide participation and interest, and b) institutionalize the productivity process, since achieving productivity improvement is a long-term process and requires a long-term orientation. The structure, however, should not involve an elaborate overhead activity. Decisions on structure are solely the agency's responsibility.

B. Preparation of Agency Productivity Improvement Plan. The agency should use its planning process to determine the long-term goals of the productivity improvement program, to develop program objectives for improving services, and to identify annually specific functions which have high priority for improvement and which offer the best opportunities for major gains in productivity. A productivity plan should be derived from this planning process and updated annually. The productivity plan will be a significant part of the overall Management improvement Plan which is prepared each year as part of the Management Review process (see Bulletin 85-19). Each productivity plan will:

1) Set forth the goals of the productivity improvement program and state the objectives to be accomplished for the reporting year.

2) Identify the specific functions which are those of high priority to be targeted for productivity improvement actions. Before targeting a function for improvement, the first question that should be answered is why the function is being performed or why the service being provided should continue. Only if the function is essential to the agency's mission should a decision be made to improve it.

   Improvement efforts should be focused primarily, though not exclusively, on program functions. Initially, a small number of functions should be targeted for improvement (e.g., three or four). While agencies are always making management improvements that may have positive effects on productivity rates, the initial plan of the productivity program should be limited in scope and should concentrate on selected priority functions. An agency may wish to initiate productivity improvements on a pilot basis at a few sites and gradually expand the program, if successful, to additional sites. Additional functions would be added to the plan each year with the objective of the broadest possible coverage of all appropriate functions by 1992.

Criteria for selecting functions for productivity improvement should include, but not be limited to: a) functions characterized by a large volume of relatively routine, repetitive activities such as claims for benefits, applications for permits, loans or grants, payment documents, investigations, regulatory actions, equipment, product or substance testing, repair and maintenance, etc.; b) functions which have definable and quantifiable outputs; c) functions which have supporting measurement systems that provide meaningful measures of productivity or functions where such systems can be readily developed; and d) commercial type activities. In general, functions should be chosen which promise the greatest resource savings for a given investment in productivity improvement.

Common government functions of a non-commercial nature (e.g., accounting, personnel, etc.) should not comprise a major portion of the agency's initial productivity plan. OMB, in partnership with the President's Council on Management Improvement (PCMI) will be addressing these areas separately through the development of common government-wide standards.

3) Describe in general terms the work involved in performing each of the selected functions, the number of employees (FTE) currently performing each function, and the office/bureau/division in which each function is performed. Describe any current problems or reasons why the agency is selecting the function for improvement.

4) Describe the current measurement system for each function that the agency will use to gauge quality, timeliness and efficiency or explain how the measurement system will be developed.

5) Provide FY 1985 (baseline year) data on the level of performance for each function. Include information on the efficiency, quality and timeliness with which the function is performed.

6) Describe the organizational performance standards for each function or explain how these standards will be established (see discussion in section 13 B).

7) State the productivity improvement expected for each selected function. Productivity improvement should be defined in terms of an increase in the: a) ratio of outputs to inputs over time that is expected to result from the implementation of the improvement; b) quality of the product or service; and/or c) timeliness of its delivery or completion.

8) Describe the methods and techniques the agency will use to achieve productivity improvement in each functional area. Agencies should carefully examine whether the function is an appropriate program or service for the private sector to deliver (i.e., it is not an inherently governmental function) and could be carried out with improved efficiency, quality and timeliness. If privatization is not an appropriate strategy, other methods and techniques that could be considered include, but are not limited to: a) technological enhancements such as improved capital investment strategies, greater use of automated systems, electronic communications, and various labor-saving devices; b) structural and organizational streamlining such as consolidating functions and/or field offices, restructuring program delivery systems, cross-servicing, reducing overhead; c) methods/processes improvement such as the use of efficiency reviews to improve workflow, simplify procedures and reduce paperwork, and the use of improved quality control procedures to reduce error rates and improve the management of intra-agency insurance programs; and d) human resource improvements including improved utilization and distribution of staff resources through the use of job-related selection procedures, stronger position management, ongoing training and retraining, use of span of control analysis and staffing standards; and the creation of greater employee incentives through the use of monetary and non-monetary rewards, productivity gain-sharing, goal-setting and feedback techniques, quality circles and employee suggestions.

9) Indicate any resources required initially to implement the productivity improvement for each targeted function and the expected source of these resources.

10) Specify the expected resource savings to result from the productivity improvement.

Within the above framework, agencies should tailor their productivity improvement efforts to meet their particular needs.

The first productivity plan should cover the remainder of FY 1986 and all of FY 1987. Thereafter, the plan will consist only of annual updates and new initiatives. Attachment B provides a format for the productivity plan. The first productivity plan should be submitted to OMB as part of the agency's Management Improvement Plan, which is due after final decisions on the FY 1987 budget (see Bulletin 85-19).

C. Implementation of the Productivity Program. Each agency will implement its productivity plan following review by the Director, OMB.

D. Assessment of the Productivity Program. Each agency will use an assessment process to determine progress that has been made toward achieving the objectives of the productivity program. Some independence should exist between the group that establishes the productivity plan and the group that measures how well the agency is meeting its objectives. Assessments should occur no less than annually and will form the basis of the agency's report to OMB which is described below in section F. The assessment should also be used to reformulate objectives and priorities, to identify problem areas and to determine which methods and techniques are more effective in achieving improved quality, timeliness, and efficiency.

E. Employee Involvement in the Productivity Improvement Program. Each agency should take steps to involve managers, employees, and employee representatives in all aspects of the productivity improvement program. Employees can be encouraged to participate actively in all agency productivity efforts if the agency creatively uses monetary and non-monetary incentives to support their goals, provides the training necessary to assist employees in performing their work, and develops an aggressive and positive program of assistance to all employees if a productivity enhancement is expected to result in a staff reduction. In the latter case, the agency should ensure that all possible steps are taken to see that reductions occur through transfer and attrition and not through a reduction-in-force. As explained in section nine (9) of this Bulletin, OPM will be of assistance to agencies in several of these areas.

F. Reporting and Monitoring. Agencies will report on the status of their productivity initiatives during the annual management hearings in the spring and in an annual report to be completed by December 1. The annual report will cover the past fiscal year's productivity accomplishments and will consist of an update of information submitted in the annual plan. Attachment B contains both the plan and the report format.

The information submitted by individual agencies will be the basis for OMB's annual report on productivity achievement prepared for the President, his Domestic Policy Council and submitted to Congress in January.

7. OMB Responsibilities. In addition to developing guidelines for the development, implementation, and assessment of the government-wide productivity improvement program, OMB will develop by January 1, 1987, and update annually thereafter, a five-year productivity plan to guide the long-range planning efforts of all executive agencies. The five-year plan will be derived from agency plans and accomplishments and will analyze patterns of productivity improvement so that successful strategies can be adopted and progress in certain areas can be highlighted.

   OMB will also carry out the following responsibilities: a) identify and propose the elimination of statutory and regulatory barriers and disincentives that inhibit productivity improvement; b) select, in consultation with the agencies, those common government functions and common agency functions that are appropriate targets for productivity improvement; and c) develop, in consultation with the agencies, organizational performance standards for common government functions.

8. Role of the President's Council on Management Improvement. The PCMI will play a major leadership role in the implementation of this government-wide effort to improve productivity in executive agencies. OMB, in partnership with the PCMI, will determine the direction of the program, will examine progress against established goals and will review the content of the program over time. Success of this program depends upon the joint efforts of the agencies, the PCMI and OMB working together to achieve common goals.

   Specifically, the PCMI will:

   - provide guidance on the overall design of the program and OMB issuances to agencies;
   - sponsor and manage the pilot projects for productivity improvement (see section 11);
   - assist in selecting common government functions and common agency functions for which organizational performance standards can be developed across government;
   - develop and implement common organizational performance standards;
   - review and provide advice on the five-year productivity plan developed by OMB; and

- assist OMB in periodically assessing progress in achieving goals and redirecting efforts, if this appears necessary.

9. Role of the Office of Personnel Management (OPM). The OPM will carry out a number of functions relating to personnel practices that should facilitate the implementation of the productivity improvement program. These include: a) reviewing and changing, as necessary, personnel policies and practices relating to productivity, including classification, incentive practices, performance appraisal, etc. to ensure that they support productivity improvement; b) developing or expanding efforts to minimize negative impacts on employees, such as job placement and retraining; and c) developing and implementing generic training programs for Federal employees to assist them in their performance of productivity improvement tasks, such as training in measurement, organizational performance standards, and productivity improvement techniques and providing technical assistance to support agency training activities.

10. Role of the Bureau of Labor Statistics (BLS). The BLS will provide technical assistance to OMB and the executive agencies with productivity measurement. BLS will also, to the extent possible, process the data received by OMB as specified in the reporting requirements including tabulating, summarizing and preparing indexes on request of OMB.

11. Pilot Projects in Selected Agencies. Under the auspices of the PCMI, a series of pilot projects will be initiated in selected Federal agencies to serve as models for the rest of government. Agencies can nominate the productivity improvement initiatives they wish to be considered as pilot projects from the Management Improvement Plans (MIPs) they submit to OMB. From this initial set of projects, OMB will choose several and will submit these to the PCMI for final selection. The initiatives finally selected by the PCMI will provide a range of productivity improvement approaches. These will be carefully evaluated and the outcome will be disseminated among all agencies by OMB.

12. Productivity Resource Center. OMB has established a Federal Productivity Resource Center which provides information to agencies on various aspects of productivity improvement. The Center contains information on productivity improvement techniques and strategies, good management practices, case studies of successful efforts to improve productivity in both the public and private sectors, how to develop measurement systems, and examples of A-76 cost comparisons and efficiency reviews. The Center, operating as a clearinghouse and referral service, may be called for information at 395-3033.

13. Areas of Special Emphasis.

A. Measurement Systems. Measurement is fundamental in determining whether or not the goal of productivity improvement is being achieved. Therefore, each agency should assess its needs in the area of developing accurate measurement systems, especially for those functions which will be targeted for productivity improvement over the next several years.

Measurement systems must provide 1) baseline data on current levels of accomplishment; 2) quantification of resources used as the input for production of a service or product; 3) amount of the product or service provided (output) per unit of input; and 4) other measures which capture data specified in performance standards for the product or service, such as quality and/or timeliness data. Thus, measurement systems should be able to determine changes in the ratio of outputs to inputs and in the quality and timeliness of outputs. The measurement system should not be any more sophisticated than is necessary for the function being measured. Existing measurement systems should be revised, if necessary, so that they will be of maximum utility to the agency and its managers.

The Federal Productivity Measurement System (FPMS), operated by BLS since 1973, contains instructions and guidelines for productivity measurement. This system provides a useful source of information for OMB and all agencies. While the productivity improvement program will initially focus on a few programs in selected agencies (Attachment A), the FPMS will continue to survey all agencies and programs. The BLS will continue to issue the FPMS data call, collect and summarize the data and return them to the participating agencies. The data which are submitted to OMB by December 1 should also be used for the FPMS submission for those functions for which OMB and BLS both require data. The key difference in requirements is that OMB requests data on several cost factors (salaries and expenses, automation and other costs) and BLS requests data on number of paid employee years and employee compensation. However, agencies should be able to use the same information system to report these data to OMB and BLS.

B. Organizational Performance Standards. Once measurement systems are in place, they provide data on a work unit's current performance (e.g., a claims processing unit is completing 100 claims a week at an accuracy level of 90% and at an average processing time of 3 weeks per claim). Current performance can be considered the baseline against which future performance is measured, though it is also likely that some agencies with measurement systems will have a baseline from a prior period. The productivity improvement program will use FY 1985 as a baseline year wherever possible. If FY 1985 data are not available for certain targeted functions, then FY 1986 will have to be used as the baseline year by the affected agencies.

After a baseline is established, each manager of a work unit responsible for an output should then develop organizational performance standards for the unit's work. A standard states what ought to be the level of efficiency, quality and timeliness. Organizational performance standards should not be set arbitrarily, but should be established using any of several acceptable methods (e.g., examining historical data to determine levels of performance over time; using work sampling techniques, operational audits or various statistical analyses; and adopting standards for similar functions used by other agencies) that are appropriate for the particular function.

C. A-76 Cost Comparisons. Agencies should continue to conduct A-76 cost comparisons for commercial activities in accordance with previous guidance in this area. This initiative remains a key part of the Reform '88 program. The efficiency review methodology that is used in conducting A-76 studies for assessing the most efficient methods for performing a function, is one of the most effective techniques for improving productivity in government operations. Agencies are strongly encouraged to conduct efficiency reviews (not full cost comparisons) in all their functions not subject to private sector performance.

14. Inquiries. Any questions regarding this Bulletin should be directed to Blair G. Ewing or Carolyn Burstein who can be reached at 395-6107.

James [illegible] Miller III
Director

Attachments

Executive Agencies Included in the Productivity Improvement Program

Agriculture
Agency for International Development
Commerce
Defense
Education
Energy
Environmental Protection Agency
General Services Administration
Health and Human Services
Housing and Urban Development
Interior
Justice
Labor
National Aeronautics and Space Administration
Office of Personnel Mangement
State
Transportation
Treasury
United States Information Agency
Veterans Administration

ATTACHMENT B

GENERAL INSTRUCTIONS FOR PRODUCTIVITY PLAN AND ANNUAL REPORT

The Productivity Plan is a subset of the agency's Management Improvement Plan (MIP). Each productivity initiative in the MIP should follow the format indicated in OMB Bulletin 85-19.

In addition to the data required in 85-19, the Productivity Plan should include the following information on each productivity initiative: (a) data for the items in Section I; and (b) a narrative response to the items in Section II.

The Productivity Annual Report consists of updating the productivity data (FY 1986 ACTUAL or FY 1987 ACTUAL) requested in Section I, and responding to items 9 and 10 in Section II.

OMB will create a database to track all productivity data. Reports from the database will use output and input data to calculate unit costs, changes in unit costs, and rates of productivity change.

SECTION I

Fill in the following information. The directions in APPENDIX A provide instructions on how to complete each item. Since this information will be used to create a database, it is very important that you follow the instructions carefully.

AGENCY: ______________________________ (20 letters)

BUREAU/DIVISION: ____________________________________(25 letters)

FUNCTION: _________________________ (18 letters)

FTEs AFFECTED: _______ (5 digits)

NUMBER OF SITES: _____ (4 digits)

Each of the following items is limited to 7 digits:

	FY 1985 BASELINE	FY 1986 EXPECTED	FY 1986* ACTUAL	FY 1987 EXPECTED	FY 1987* ACTUAL
Total Outputs	______	______	______	______	______
Total Inputs	______	______	______	______	______
1. S&E costs	______	______	______	______	______
2. Automation costs	______	______	______	______	______
3. Other costs	______	______	______	______	______

*These items make up the ANNUAL REPORT. Submit them at the end of the fiscal year.

SECTION II

Respond in narrative to the following items.

1. State the goals of your productivity program as they relate to each initiative.

2. Describe the activities and tasks involved in performing the function to be improved.

3. Describe problems in the performance of the function, or list the reasons that the agency is selecting the function for improvement.

4. If a measurement system does currently exist, describe briefly the measures or indicators used and how the system operates. Also describe any changes that will be made to the current system.

5. If a measurement system does not currently exist, describe when and how a measurement system will be developed and implemented. Include dates for development and implementation as milestones in the Management Improvement Plan.

6. If organizational performance standards do currently exist, state the efficiency standard(s), quality standard(s) and timeliness standard(s) for FY 1986. Also describe any changes that will be made to the current standards.

7. If organizational performance standards do not currently exist, describe when and how they will be established. Include dates for development and implementation as milestones in the Management Improvement Plan.

8. Indicate expected changes in quality and timeliness of output, from base year FY 1985 to end of FY 1986, and from FY 1986 to end of FY 1987.

The following two items make up the ANNUAL REPORT. Submit them at the end of the fiscal year.

9. Indicate actual changes in quality and timeliness of output, from base year FY 1985 to end of FY 1986,and from FY 1986 to end of FY 1987.

10. If a discrepancy exists between expected and actual changes in inputs and outputs (efficiency), quality, or timeliness, explain the discrepancy.

DEFINITIONS

PRODUCTIVITY: The efficiency with which resources are used to produce government products or services at specified levels of quality and timeliness.

BASELINE PERFORMANCE: A measure of current performance against which future performance is compared. The Productivity Improvement Program will use FY 1985 as the baseline year.

OUTPUTS: The number of final products or services produced. Non-equivalent outputs should be weighted so that all outputs are equivalent units.

INPUTS: Costs of resources used to produce outputs. This should include all divisions or offices which contribute to producing the outputs. Costs include: 1) salaries and expenses (S & E) of all employees who directly or indirectly produce the outputs, including management, professional, administrative, technical and clerical workers of relevant divisions; 2) automation costs not included in S & E (such as hardware, software, and telecommunication costs); and 3) other costs which are not included in either 1 or 2.

EXPECTED OUTPUTS AND INPUTS: The changes to be achieved in outputs and inputs as a result of implementing productivity improvement strategies. Data should be entered into the system to indicate expected changes from base year FY 1985 to the end of FY 1986, and from FY 1986 to the end of FY 1987.

ACTUAL OUTPUTS AND INPUTS: Actual cost inputs and actual number of outputs achieved as a result of implementing productivity improvement strategies. Data should be entered into the system at the end of the fiscal year, to indicate actual changes from base year FY 1985 to the end of FY 1986, and from FY 1986 to the end of FY 1987.

FTE: Full-time equivalent.

ORGANIZATIONAL PERFORMANCE STANDARDS: These standards state what ought to be the level of performance achieved by the organizational unit(s) performing the function. Standards should address the three elements of performance: efficiency, quality and timeliness.

APPENDIX A

PRODUCTIVITY PLAN AND ANNUAL REPORT

DATA DICTIONARY

FIELD NAME: AGENCY

FIELD WIDTH: 20 letters

INSTRUCTIONS: Enter the name of the agency.

FIELD NAME: BUREAU/DIVISION

FIELD WIDTH: 25 letters

INSTRUCTIONS: Enter the name of the organization under study. Abbreviate if necessary.

FIELD NAME: FUNCTION

FIELD WIDTH: 18 letters

INSTRUCTIONS: State the function to be improved. Be as concise as possible. Abbreviate if necessary.

FIELD NAME: FTES AFFECTED

FIELD WIDTH: 5 digits

INSTRUCTIONS: Enter the total number of FTEs involved in the function to be improved.

FIELD NAME: NUMBER OF SITES

FIELD WIDTH: 4 digits

INSTRUCTIONS: Enter the number of sites under study.

FIELD NAME: TOTAL OUTPUTS

FIELD WIDTH: 7 digits

INSTRUCTIONS: Enter the total outuputs for the function to be improved.

DEFINITION: Outputs are the number of final products or services produced. Non-equivalent outputs should be weighted so that all outputs are equivalent units.

FIELD NAME: TOTAL INPUTS

FIELD WIDTH: 7 digits

INSTRUCTIONS: Enter the total inputs for all organizational units involved in producing the outputs.

DEFINITION: Inputs are the costs of resources used. This should include all divisions or offices which contribute to producing the outputs.

For major capital investments that occur in the reporting year, proportion the cost according to your own agency's amortization formula or policy.

Costs should include:

1. Salary and expense (S & E) costs of all employees who directly and indirectly produce the output. This should include all management, administrative, technical support and direct program staff. **ENTER THIS FIGURE FOR LINE 1 (S & E COSTS).**
2. Automation costs not included in S & E (e.g. all costs associated with automating operations such as hardware, software, and telecommunications costs). **ENTER THIS FIGURE FOR LINE 2 (AUTOMATION COSTS).**
3. Other costs which are not included in either 1 or 2 (e.g. special contracts). **ENTER THIS FIGURE FOR LINE 3 (OTHER COSTS).**

This attachment provides GAO's views on several legislative proposals to improve management in the federal government. These proposals include reporting on planned federal field office closures, improving productivity, renewing the President's reorganization authority, requiring an annual management report, strengthening the audit and investigation functions in certain agencies, improving the government's acquisition process, providing for the electronic funds transfer of federal salaries, and reducing various reporting and regulatory requirements.

THE FIELD OFFICE CLOSING JUSTIFICATION ACT (H.R. 2401)

The Field Office Closing Justification Act, H.R. 2401, would require federal agencies to advise the Congress of any reorganization plans affecting field office personnel. This bill, which excludes Department of Defense facilities (which are already subject to separate reporting requirements), requires a written report describing such factors as the reasons for the proposed reorganization, its effect on the field office's employees and functions, the economic effect on the community, and the costs and benefits anticipated from the reorganization. The report would be required 120 days before the effective date of such proposed action.

This bill, which was approved by the House of Representatives, is intended to address the problems expressed by congressional offices, federal employees, and citizens in obtaining specific information on agencies' plans to close and consolidate field offices, such as the recent proposal to close many Social Security offices across the country.

The House discussion indicates that sufficient justification and notification on reorganizations are not currently available to the Congress. We understand congressional concerns and concur that such closures and consolidations should be cost-effective and adequately justified. We do believe, however, that a balance needs to be achieved between congressional needs for information and the burden placed on affected agencies to prepare the required reports. Also, legislation in this area should not unduly inhibit the management discretion of the agencies.

Before enacting new legislation of this sort, we suggest the Congress first consider whether its needs could be served by modifying the normal budget and oversight process, rather than by establishing a separate reporting requirement.

For example, OMB could be required to report in its annual budget documents the specific field office closings and anticipated reorganizations being considered. This could be followed by oversight hearings in the spring of each year on particular agency actions to assure the Congress that the closings or reorganizations are cost-effective and do not degrade service to the public. We are currently monitoring how this process has worked with the planned closures of Social Security offices and believe it has merit.

If the Congress deems legislation necessary in this area, certain actions could be taken to reduce the administrative burden. Presently, the bill requires the reporting of planned changes that would cause the removal, reduction in grade or pay level, involuntary reassignment, or furlough of just one employee. Perhaps some of the potential administrative burden of H.R. 2401 could be alleviated if the reporting requirements were limited to reorganizations of a certain magnitude. Existing laws, for example, require reports to the Congress by the Department of Defense on the proposed closure or realignment of military installations and by the Veterans Administration on the proposed reorganization of its facilities. These laws exclude some field office reorganizations from the reporting requirements, however, because of the relatively small number or percentage of employees affected. In this regard, we also suggest that the committee clarify whether the bill is intended to replace or supplement the existing Veterans Administration reporting requirement and such others that may exist.

We have one other suggestion on this bill. The bill requires reports whenever certain personnel actions are taken "incident to" reorganizations of field offices. Differences of opinion may exist concerning whether a particular personnel action is "incident to" a reorganization. To avoid disputes, we suggest the bill be amended to require reports when planned field office reorganization decisions will result in fewer employees or a lower overall grade level at any field office. This change would be consistent with the purpose of the House sponsors of the bill, which is to require notification to Congress before making significant changes in field office structure that will adversely affect federal employees. Attachment II contains suggested legislative language.

SENATE JOINT RESOLUTION 190

Senate Joint Resolution 190 would

- --establish increased federal productivity as a national goal,
- --encourage presidential recommendations for productivity improvement, and
- --require an annual report to the Congress on management actions to improve productivity.

This bill emphasizes the Administration's efforts to systematically manage productivity improvement--an area which has usually been accorded a low status. More importantly, it signals congressional intent to foster federal productivity improvement and provides a statutory base for long-term efforts to improve productivity.

Since the late 1970s, we have been advocating more systematic management of productivity. Our support is based on the belief that productivity is vitally important and on our observations of missed opportunities for cost savings. For example, we estimated in 1983[1] that, with a 5-percent increase in federal productivity, as much as $4.5 billion could be saved annually. Further, we have reported on missed opportunities for productivity gains ranging from 5 to 25 percent in various agencies' activities, such as processing of claims and payments.

In our 1983 report we concluded that opportunities were missed because productivity improvement efforts were fragmented, lacked consistent leadership, and were ad hoc efforts, rather than part of ongoing management processes. For example, of 13 assistant secretaries for management and administration or their designees we talked with, none felt that productivity improvement was an integral part of their management systems. In short, the departments had not institutionalized productivity management and given it a priority as a way to reduce operating costs and improve services.

A well-managed approach can uncover many more opportunities for improvements. A 1983 Kearny Management Consultants study projected that private sector companies with productivity programs earned about 30 percent more in sales than companies without such programs.

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[1] Increased Use of Productivity Management Can Help Control Government Costs (GAO/AFMD-84-11, Nov. 10, 1983, p.10).

We believe the Administration's proposals are a step in the right direction. The elements of productivity management that are being proposed as part of its governmentwide program largely parallel elements suggested in our 1983 report. These include (1) establishing plans and goals for improving efficiency, timeliness, and quality of services; (2) holding managers accountable for these improvements; (3) supporting such efforts at the top levels and providing a focal point for fostering performance improvement; and (4) establishing measurement systems that permit monitoring of performance changes and appraising managerial success in making improvements.

To institutionalize productivity management, considerable attention must be paid to the fact that long-term improvements are made through involving all the people of the organization. We note that the President is asking each agency to involve and reward employees and minimize any negative impact created by productivity initiatives.

Long-term productivity improvement requires more than a program: it requires management commitment and accountability. To this end, a joint resolution would send a clear message to all federal managers that

--productivity management is the expected way of doing business,

--federal managers should be held accountable for the productive use of resources, and

--the administration's program should receive a high priority.

We endorse passage of this resolution. We are concerned, however, that it not lead to a short-lived program, or a perfunctory reporting requirement, nor be viewed simply as a means of cutting the budget. Productivity is much more than that. Productivity improvement means providing more and better service for every dollar spent. While a congressional resolution is a beginning, it should be recognized that productivity gains will only come through concerted efforts by executive agencies and reinforcement by the Administration. Accordingly, we plan to monitor agencies' activities under this program and to report on their progress as a contribution to this Committee's continuing oversight of productivity improvement efforts.

EXTENSION OF THE PRESIDENT'S REORGANIZATION AUTHORITY

You have also requested our comments on draft legislation to extend the President's authority to submit reorganization plans to the Congress for approval (S.1657).

Important procedural changes were made in the latest provision for reorganization authority, which was enacted on November 8, 1984 (P.L. 98-614). In place of the long-standing legislative veto provision, which allowed reorganization plans to go into effect without congressional action, the 1984 authority required a joint resolution of approval, signed by the President, for a plan to go into effect.

The 1984 authority also required the President to provide a detailed description of the implementation plans for each reorganization. We have regarded this provision as fully responsive to our earlier recommendation before this Committee and the House Committee on Government Operations in 1981 and 1983, on the need for careful implementation planning to mitigate substantial agency start-up problems.

The present bill extends through December 31, 1988, the procedures enacted in 1984. We recommend its enactment.

GOVERNMENT MANAGEMENT REPORT ACT OF 1986

The Government Management Report Act of 1986 (S.2004) would require the President to submit to the Congress an annual report on the management of the executive branch. It is to include the President's policies and objectives for improving government management and a statement of management issues in areas such as productivity, human resources management, financial and information resource management, program delivery, and procurement. The report also is to describe ongoing and planned management improvement initiatives and proposals for legislative action.

We support the concept of a report that would comprehensively address the government's management improvement agenda. This was one option for strengthening the framework for management improvement that we presented after analyzing governmentwide efforts to improve executive management in the

1970s.[2] Such a report could foster a dialogue with the Congress on what issues are most important and help promote a consensus on what needs to be done. This is especially important because management reforms are more likely to succeed if they have a consensus and a legislative basis.

Reporting and congressional oversight on the progress made toward various improvement goals can spur Administration attention to careful planning and implementation, something we found to be a problem in the past. A regular report can also help sustain attention on addressing complex management issues. This is particularly important because commitments to reform have waxed and waned over the years.

A governmentwide management report offers a useful forum for discussion, but it should be viewed as only one step toward improving federal management. Whether improvements are made hinges on the substance of the agenda pursued and on what actions are taken by individual agencies. While governmentwide initiatives can provide an important impetus, individual agencies are the primary agents of change. They bear principal responsibility for better management of federal resources and more efficient provision of public services. In this regard, our current strategy in conducting management reviews is to focus on identifying areas for improvement in individual agencies.

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[2] Selected Government-Wide Management Improvement Efforts--1970 to 1980 (GAO/GGD-83-69).

To the extent that Congress finds it useful to have all management initiative information consolidated in one report, it should clarify how the report will relate to other reporting requirements. For example, clarification is needed on how the annual productivity reporting requirement in Senate Joint Resolution 190 would relate to the management report's requirement for listing governmentwide management issues involving productivity. Also, the Paperwork Reduction Act and federal procurement legislation require annual reports on information resource and procurement management issues--both also topics of the proposed management report. The Congress may want to establish that the comprehensive management report would satisfy the other existing reporting requirements. This would reduce the burden imposed on executive agencies and eliminate any duplicative reporting.

INSPECTOR GENERAL ACT AMENDMENTS OF 1986

The "Inspector General Act Amendments of 1986" (S.2005) would extend statutory IG protections and requirements to audit units in certain entities that are not currently subject to the Inspector General Act of 1978, as amended. This bill would

--require that only a single internal audit unit exist in these federal agencies,

--insulate the audit unit from program operating responsibilities,

--mandate the audit unit head to report to the federal entity head or the officer next in rank,

--require a report to both Houses of Congress stating the reasons for the removal or involuntary transfer of the audit head, and

--empower audit unit heads with the same authorities and responsibilities as the existing statutory IGs.

We support passage of this bill. It would significantly improve the effectiveness of audit and investigation activities in smaller entities not now subject to the statutory IG requirements. These entities, such as the Securities and Exchange Commission and the Farm Credit Administration, are collectively responsible for spending billions of federal dollars and carrying out extremely important regulatory and other activities.

Additionally, the bill, if enacted, would help correct problems we have found, particularly the poor coordination among, and the potential lack of independence of, audit and investigative functions. In 1984 we reported that some agencies without statutory Inspectors General were not complying with GAO auditing standards and with OMB Circulars A-73 and A-50, which address audits of federal operations and programs and audit followup. For example, some agencies required the audit unit to report to an official other than the agency head or his/her deputy, which creates a potential lack of independence. Moreover, while 21 of the agencies with audit units had more than one audit or investigative unit, only 4 of these agencies had procedures for coordinating audit work within their agencies.

We are, however, concerned about a provision in the bill that would change the semi-annual reporting requirements in the 1978 Inspector General Act. This proposal deletes the requirement that IGs report each significant recommendation described in previous semi-annual reports on which corrective action has not been completed and instead requires the IGs to report only such recommendations that have not been resolved. Generally, the executive branch defines resolution as that point at which agreement is reached as to what specific action will be taken in response to an audit recommendation. This definition falls short of GAO's internal control standards, which stipulate that audit resolution is not complete until the identified deficiencies have been corrected. Consequently, to encourage prompt and responsive actions to address audit findings and recommendations, we believe that the IGs' reports should include the status of both the agreement process and the status of the action taken to correct significant deficiencies on which agreement has been reached.

CONTRACT DISPUTES ACT AMENDMENTS OF 1986

This bill (S.2006) makes certain amendments to the Contract Disputes Act of 1978 (CDA) which are designed to eliminate needless litigation and expedite the contract disputes process. Among other things, the bill would

- --require that claims under the CDA be submitted to the contracting office (CO) within 18 months (Section 2);[3]
- --reduce the time in which a contractor may appeal a CO decision to the courts (from 12 months to 90 days) to the same period in which the contractor may appeal to a Board of Contract Appeals (Section 3);
- --enhance the government's authority to compel contractors to pay or perform within 90 days after an adverse CO decision, unless the contractor appeals (Section 4); and
- --exempt debts arising under the CDA from collection by administrative offset under the Debt Collection Act of 1982 (P.L. 97-365) (Section 5).

We support the basic purposes of Sections 2, 3 and 4 of the bill. While we have a number of technical suggestions to help clarify the bill, which we will provide separately to the Committee, we offer several substantive comments. Section 4(a) of the bill requires payment or performance by the contractor within 90 days after the CO's decision, unless the contractor commences an appeal. We are concerned that the language in section 4(a) might encourage frivolous or dilatory appeals in order to postpone the contractor's obligation to pay or perform promptly after the CO's decision in a contract dispute. We informally consulted with Justice Department staff who agreed with our analysis. We have therefore attached a proposed revision to section 4(a) to reduce this possibility and help accomplish the objectives of this legislation. (See attachment III.)

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[3] We have previously suggested that Congress should consider setting such a time limitation. See Assessment of Admiral Rickover's Recommendations to Improve Defense Procurement (GAO/PLRD-83-37, Jan. 27, 1983).

We also think that the provisions of section 5 of this bill are unnecessary. We understand that section 5 is intended to prevent contractors from pursuing duplicative hearings--under both the CDA and the Debt Collection Act of 1982--before a claim may be collected by administrative offset. The Federal Claims Collections Standards (FCCS) are joint GAO/Justice regulations which implement the Debt Collection Act and govern the collection of debts owed the United States. These regulations state that agencies are not required to give debtors additional hearings under the Debt Collection Act if the debtor has already received a hearing on the debt pursuant to another statute, including, for example, the CDA. Therefore, the hearing requirements of the Debt Collection Act are satisfied by compliance with the hearing procedures specified in the CDA, and the amendments prepared in section 5 are not necessary.

However, to eliminate the possibility for misunderstanding, we recommend that the bill or its history refer to the FCCS regulations to clarify the relationship of the CDA and the Debt Collection Act.

PROCUREMENT TEST ACT OF 1986

This bill (S.2007) would amend the Office of Federal Procurement Policy Act to provide authority to the Director, OMB to test innovative procurement methods and procedures without requiring separate congressional action. It would allow OMB to conduct tests after notifying the Congress, without regard to existing statutory restrictions. Current Office of Federal Procurement Policy (OFPP) testing authority, provided in the Office of Federal Procurement Policy Act Amendments of 1983 (P.L. 98-191 Section 15), requires congressional action to waive statutes before OMB can conduct some tests of innovative procurement actions.

We support the concept of testing innovative procurement methods and procedures, but note that little experience has been gained under the existing testing authority. The first proposal under the existing authority--a test of simplified small purchase procedures--was submitted to the Congress in December 1985, and is awaiting action. Given this limited experience, we have no basis for concluding that the existing legislation needs to be amended at this time.

SIMPLIFIED COMPETITIVE ACQUISITION TECHNIQUE ACT OF 1986

This bill (S.2008) proposes a new contracting method called the Simplified Competitive Acquisition Technique, or SCAT. SCAT is intended to shorten the time frame required to purchase goods and services that cost between $25,000 and $5 million from 260 days to 85 days.

We agree that shortening the procurement process would be desirable. However, we have major reservations with certain provisions of this bill and do not support passage in its current form.

First, the bill would effectively eliminate the "stay" provisions recently established by the Competition in Contracting Act of 1984 (31 U.S.C.A. section 3552 (c) and (d)). These provisions require contracting agencies generally to stay the award of a contract or suspend the performance of an awarded contract if a bid protest is filed within 10 days of the award, until GAO issues a decision. The stay provision would not apply to protests filed with the contracting agency under section 5 of the bill. Thus, a protester would lose the benefit of the stay unless it could file a subsequent protest with GAO, either before award is made or within 10 days of contract award.

Second, SCAT would provide for (1) a 5-day interval between publication of a notice in the Commerce Business Daily of an intent to procure and issuance of a solicitation, and (2) a 15-day interval between solicitation issuance and the deadline for submission of proposals. Currently, agencies are required to allow 15 and 30 days, respectively. The current time frames are intended to widen competition by permitting more potential contractors to be aware of and have time to compete for federal contracts and subcontracts. The bill's provisions for shorter intervals would conflict with this congressional intent.

Third, SCAT would completely exclude the use of pre-award audit to verify that contractors' proposals are current, complete, and accurate. We are concerned that if the possibility of pre-award audit is eliminated, it could result in contractors inflating proposed prices. We are not recommending that all SCAT contracts be subjected to pre-award audit but rather that the complete absence of the threat of audit could have a harmful effect on price.

THE ELECTRONIC FUNDS TRANSFER FEDERAL SALARY ACT

The Electronic Funds Transfer Federal Salary Act (S.2009) authorizes the Secretary of the Treasury to require that wages and salaries of federal employees be paid by electronic funds transfer, or any other method that the Secretary determines to be appropriate. The legislation also allows individuals, to whom a payment other than wages and salary is to be made, to request payment by any method authorized by the Secretary in accordance with the bill. Finally, all current federal employees whose annual rate of basic pay is less than $20,000 may, upon request, be exempted from the bill.

We support the cost-effective use of electronic funds transfer because it has the potential to increase controls over government payments while reducing costs. In addition, we would support efforts to expand the scope of this bill. For example, we believe the bill should be expanded to allow the Secretary of the Treasury to require, whenever appropriate, that all federal payments, rather than just payroll payments, be paid through electronic funds transfer.

PAPERWORK AND REGULATORY SIMPLIFICATION ACT OF 1986

The Paperwork and Regulatory Simplification Act of 1986 (S.2010) contains provisions that would reduce a wide variety of generally discrete reporting requirements and/or regulations. Thus, rather than attempt to address the bill in its entirety, we will comment on a section-by-section basis in those areas where we have views. The following provides our comments on seven subsections of S.2010. We suggest issues the Congress may want to consider on three of these subsections, and we support one subsection. We are not in favor of three subsections.

Department of Energy (Section 103)

Section 103(d)

Section 103(d) would eliminate a requirement to collect detailed information on cost of service provided by electric utilities to various consuming classes.

We support Section 103(d). The provision is consistent with the findings of our 1981 report on the Public Utility

Regulatory Policies Act of 1978.[4] We reported that cost-of-service data requirements are burdensome and costly to the reporting utilities. We also found that state regulatory commissions and interveners in utility rate cases, who were anticipated to be the primary beneficiaries of the data, believe the information is of little use.

Department of Health and Human Services (Section 104)

Section 104(f)

Section 104(f) would repeal a requirement that certain health and medical schools, programs, and training centers which receive federal funds report annually certain demographic information on health professions to the Department of Health and Human Services.

We have not conducted audit work which addresses directly the collection of demographic data from health and medical education facilities. However, we note that Section 104(f) would not eliminate the existing requirement for the Secretary of Health and Human Services to establish a uniform health profession reporting system and provide reports to the Congress. Therefore, since Section 104(f) would eliminate one of the Department of Health and Human Services' data sources, we suggest that the Committee inquire about the alternative sources that the Secretary plans to utilize to report on the demographic status of the health professions.

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[4] Burdensome and Unnecessary Reporting Requirements of the Public Utility Regulatory Policies Act Need to be Changed (EMD-81-105, Sep. 14, 1981).

Section 104(h)

Section 104(h) would replace the current requirement that the states conduct annual independent audits of Preventive Health and Health Services Block Grant funds with a requirement for an audit not less than once every 2 years.

We do not support the provision as currently written because it is inconsistent with the Single Audit Act of 1984 (P.L. 98-502) which, except in certain specific cases, requires annual audits. The Single Audit Act is intended to promote a more uniform federal approach to grant auditing and thereby simplify the audit process. We therefore recommend that section 104(h) be altered to require audits in compliance with the Single Audit Act of 1984.

Section 104(i) and (j)

Subsections (i) and (j) of Section 104 would eliminate the requirement for the Secretary of Health and Human Services to determine the form and content of annual reports that the states must prepare as part of the Preventive Health and Health Services Block Grant and the Alcohol, Drug Abuse, and Mental Health Service Block Grant Programs.

We reported in 1985[5] that, even with its current authority, the Department of Health and Human Services has not moved to collect uniform national data on these programs.

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[5] State Rather Than Federal Policies Provided the Framework for Managing Block Grants, (GAO/HRD-85-36, March 15, 1985).

Uniform national data is important in order to develop a national assessment of program results and thereby enable the Congress to better assess the extent to which these block grants are meeting the needs of those served. As a result of its concerns in this area, the Congress strengthened national reporting requirements for both the Preventive Health and Health Services Block Grant and the Alcohol, Drug Abuse, and Mental Health Service Block Grant Programs, by requiring the Secretary, in consultation with appropriate national organizations, to develop model criteria and forms for national data collection. We therefore are not in favor of subsections (i) and (j) of Section 104 because they would decrease the availability of uniform national data in these block grant programs.

Section 104(u)

Section 104(u) would amend the Social Services Block Grant Program to include the alleviation of poverty as a goal of the program.

We do not have a position on this section but note that it must be considered in conjunction with a policy decision regarding the Community Services Block Grant (CSBG). The Administration has proposed to allow states to provide federal Social Services Block Grant Program funds to community action agencies currently funded under CSBG. In addition, in the fiscal year 1987 budget, as in the previous three Presidents' budgets, the Administration targets CSBG for termination. However, Congress has thus far refused to discontinue the program. If the Congress deems the proposed termination to be appropriate, Section 104(u) could help ease the transition.

Section 104(v)

Section 104(v) amends the Social Services Block Grant Program to permit Indian tribes to consolidate non-health block grants of the Department of Health and Human Services. This provision would grant authority similar to that which is currently available to U.S. Insular Areas under Title V of Public Law 95-134.

Our work on grants to U.S. Insular Areas points to a number of concerns that need to be resolved concerning Section 104(v). For example, our 1981 report[6] on consolidating grants in Insular Areas reported that there was a need to clarify which programs were subject to consolidation, which program rules and regulations should be retained or modified for consolidated grants, and the degree of discretion permitted to the Insular Areas to transfer funds among consolidated programs.

We therefore suggest that the Committee clarify the following in Section 104(v):

--Would Indian tribes have authority to consolidate block grant funds awarded directly from the Department of Health and Human Services with block grant funds passed through the state under the Social Services Block Grant? If so, problems could arise due to separate state accountability requirements imposed on federal pass-through funds that are comingled with state funds.

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[6] Limited Progress Made in Consolidating Grants to Insular Areas (GGD-81-61, July 10, 1981).

--Would the Department of Health and Human Services have the authority to review and to reject a tribe's consolidation proposal?

ATTACHMENT II　　　　ATTACHMENT II

PROPOSED SUBSTITUTE LANGUAGE FOR
LINES 9- 17, PAGE 3 OF H.R. 2401
AS INTRODUCED IN THE SENATE ON JULY 9, 1985

"(b) This section applies with respect to any removal, reduction in grade (or pay level), involuntary reassignment, or furlough of any employee assigned to a field office of an agency if

"(1) a decision has been made--

"(A) to change the types or the number of functions to be performed by such field office, or the manner in which such functions are to be performed; or

"(B) to terminate the performance of any function, in whole or in part, by such field office, and

"(2) after the decision has been carried out, either

"(A) the number of employees assigned to the office will be less than the number assigned immediately before; or

"(B) the average grade level of employees assigned to the office will be lower than the average immediately before.

PROPOSED SUBSTITUTE LANGUAGE FOR
SECTION 4(a), PAGE 2 OF S.2006
AS INTRODUCED IN THE SENATE ON JANUARY 22, 1986

"Notwithstanding the pendency of the contractor's request for relief, claim, appeal, or other action arising under or relating to the contract, within 30 days after receiving a copy of a contracting officer's decision (issued under section 6(a)), the contractor shall comply with any requirements imposed by that decision to pay any amounts found owed, or to proceed diligently with performance of the contract, unless the contracting officer finds, in the exercise of reasonable discretion, that the contractor's compliance with that requirement should be suspended in the best interests of the United States."

GAO RESPONSES TO QUESTIONS

SUBMITTED BY SENATOR WILLIAM V. ROTH, JR.

OMB's ROLE IN MANAGEMENT

1. A staff study your office issued in 1983 indicated that the management improvement initiatives undertaken during the 1970s generally fell short of initial expectations and that OMB was dominated by the budget process. How would you characterize the results of OMB's management initiatives in the 1980s?

GAO RESPONSE: This Administration's management initiative is labelled Reform 88, which actually is a whole range of individual improvement efforts. We have not performed a comprehensive review of all these initiatives with the intention of commenting on Reform 88 as a whole. However, we have conducted work, or are performing work, which assesses aspects of specific initiatives within Reform 88. If we look across the work we have performed, we would have to conclude that many of these efforts have not yet achieved the positive improvements which are so badly needed. For example

--many serious and long-standing internal control weaknesses remain which will take years to correct. We believe that many agencies are not in a position to state with reasonable assurance that their systems meet the Financial Integrity Act's (FIA) objectives.

--despite passage of the Debt Collection Act of 1982, debts owed the government have increased greatly, and 11 agencies identified debt collection as a material weakness in their 1984 FIA reports.

--we have some fundamental disagreements with OMB on the scope and shape of financial management reform. One of the most important disagreements concerns how to best capture the program cost data needed for making fundamental policy and budget decisions.

--we have major concerns with how the government is managing its major investments in information resources. In just one area -- OMB reviews of major information systems which represent new, precedent-setting applications of information technology -- we have reviewed almost all of these systems, including systems in the Social Security Administration and the Patent and Trademark Office. We have identified major deficiencies in almost all of these systems, generally contradicting OMB's claims of progress.

--OMB's personnel initiatives seem designed merely to cut civil service pay and benefits relative to private sector practices. Recently, OMB has talked of involving the federal workforce in the effort to improve productivity, but it is too soon to judge the potential success of this effort.

While we obviously have our concerns about the status of numerous efforts, we recognize that management improvement involves a long and difficult process. OMB has recognized this, and has persisted in its attention to management improvement. This has not always been true in the past.

Additionally, through such organizations as the President's Council on Managment Improvement and the President's Council on Integrity and Efficiency, this Administration has recognized the importance of involving line agencies in the management improvement process.

Finally, the theme of the Administration's efforts has focused largely on cost reductions and administrative efficiencies. While these are important, we are encouraged to hear of OMB's stated intention to place greater emphasis on program results. The challenge that lies ahead is to give greater orientation to program management and ensure that services to the public are rendered in the most cost effective manner.

2. Your office has performed five general management reviews in Cabinet Departments and major agencies. What are the most important findings of these studies?

GAO RESPONSE: Several common themes emerged out of our reviews. Among the most important are the need for stronger leadership, better long-range planning, and greater attention to developing adequate support systems, such as financial and information management, to help agency heads direct and control operations and to ensure that executive and legislative priorities are achieved.

Let me cite the Department of Labor as an illustration. The problems encountered at the Department of Labor revealed the need for four basic improvements:

--First, stronger direction. We found that Labor had no systematic long-range planning process. As a result, the Department generally operated in a reactive rather than a proactive mode. In addition, we found that the former Secretary did not identify key priorities or systematically track progress.

--Secondly, there was a need for better control. Here our analysis showed that information systems did not always provide sufficient data on mission attainment, and that audits, reviews and evaluations were often not helping program managers identify and resolve problems.

- --The third need was to enhance workforce management. Labor has had nine reductions-in-force since 1982 resulting in losses in efficiency, low staff morale, and possible long-term problems in filling managerial positions. Further, Labor's training and management development programs lacked credibility among many program managers.

- --Fourth, we found a need to improve support functions. Especially important are financial management, automatic data processing, procurement, and productivity. Improved productivity at Labor is especially important since the Department is carrying out its mission with fewer resources. Also, funding limitations have often been exceeded by component agencies, raising the potential for Anti-Deficiency Act violations.

We are pleased to note that Secretary Brock has been very responsive to our findings, establishing the Secretary's management system to implement policy/program goals and respond to many of the concerns raised in the report. He has invited GAO to conduct a follow-up review this year and to give him a candid report card at the end of his first year on the management report program.

We see these studies providing a number of benefits to congressional oversight beyond the immediate actions which Department officials may take. These broad management assessments provide Congress with a wealth of information on the general management issues confronting these departments and agencies, and provide a baseline against which to measure progress in implementing corrective action. These reviews provide information on specific programs or management functions such as information resources management, which congressional committees have found very useful. As a result of these management reviews, GAO is performing a number of program reviews at Congressional request.

3. You have taken the position that the departments and agencies should have primary responsibility for their management. We have seen signs, however, that some of our main-line agencies generally considered well-managed, such as IRS, SSA, DOD and NASA, are running into increasing difficulties.

a. Does OMB have a duty to help these agencies solve their management problems?

b. If so, is OMB fulfilling that role today?

GAO RESPONSE: You are correct that we do look to the departments and major agencies, which are responsible for delivering basic services to the public, as the principal organizations responsible for management improvement. It is this belief, coupled with our concern about the capacity of these departments and agencies to deliver these services efficiently and effectively, which led us to embark on our management review initiative.

We believe that our general management reviews can be an important stimulus to ensuring that basic management issues receive sustained attention. We are encouraged by the results of our early efforts. Our findings have been well received by executives at the Departments of Labor and Justice and at the Defense Logistics Agency. Corrective actions have been undertaken, and we plan to monitor the progress of these agencies as they undertake the long and difficult process of implementation. Your interest and oversight of these agencies as they proceed could provide a very beneficial influence.

Without question, OMB on behalf of the President, should be abreast of the strengths and weaknesses of departments and major agencies, and should act to see that problems are overcome. However, we do not believe that there is any universally applicable answer regarding how OMB should become involved in trying to address line agency management problems.

Although there may be others, two factors come to mind in making judgments regarding OMB's proper role. First, there is a natural tension between the line and central agencies, and a widespread conviction that the line agencies are as knowledgeable about management as the central agency staffs. A second and related point, one which has been made by the National Academy of Public Administration (NAPA) and others, concerns the question of whether OMB today has the capability, either in terms of staff experience or resources, to oversee adequately line agency activities.

Possibly the OMB management review process, which has the objective of evaluating the overall status of management in major federal agencies, and integrating management improvement efforts into the budget process, offers the potential for continually spurring attention to management improvement in the agencies.

4. What are GAO's plans for reviewing OMB and the other central management agencies?

GAO RESPONSE: We are planning to conduct reviews of the three central management agencies -- OMB, GSA, and OPM -- over the next 2 1/2 years. Our objective is to produce a comprehensive assessment of central agency performance in addressing the major problems confronting line agency management. We believe it is important to have this assessment available for the next Administration as it begins to grapple with some complex and long standing issues regarding central agency performance. We are anxious to conduct these reviews with the full cooperation of the present Administration and have begun discussions toward that end.

Presently, we are formulating our plans by drawing upon the range of GAO's intitutional expertise and by consulting with experts in public administration--both academics and former executives in the central agencies. In this connection, the work being done by the Committee and the Congressional Research Service (CRS) on the history of OMB will be most useful. Right now, we contemplate conducting a series of reviews of central agency leadership in such areas as procurement, information resources management, human resources management, financial management and productivity. However, we are still very much in the planning process, and will be happy to advise you of our plans later in the spring. The support of this Committee is very important to the successful conduct of these central management agency reviews.

FINANCIAL MANAGEMENT

1. Should the financial management reforms that you have proposed be considered in the context of further budget process reforms?

GAO RESPONSE: Absolutely. The current budgetary process in both the Congress and the Executive Branch is unduly cumbersome, repetitive, and work-intensive. Consequently, decisionmakers in both Congress and the Executive Branch often have little time to focus on the future consequences of current budget choices. Further, budget documents should provide greater visibility and a better accounting for capital expenditures so that we can better distinguish between current operating costs and investments that provide benefits for more than one budget year. Members of Congress and top Executive Branch officials must be less encumbered with unnecessary detail so that they can give more attention to major policy issues, the long-term consequences of current budgetary choices, and the oversight and management of government programs and agencies.

2. To achieve these reforms, will we need to change the appropriation account structure? If not, how can the budgeting and accounting systems be better integrated?

GAO RESPONSE: There is no need to alter the current appropriation account structure in order to achieve the reforms we think are necessary. Modern ADP systems can easily aggregate more detailed financial reporting data into appropriation account totals while providing managers the detailed reports they need on program or project costs, schedules, and performance. The current obligation basis reporting by object class and appropriation account is essential in monitoring the extent to which agencies are making commitments for future payments. Cash-basis, or outlay, reporting is essential in managing fiscal, debt, and credit policies.

By developing integrated budgeting and accounting systems that permit the comparison of actual results against budget plans, it is possible to produce reports on such management responsibilities as operations, organization, programs or missions, and projects. Modern ADP technology permits an integrated approach to budgeting and accounting, while maintaining current appropriation account, obligation, and outlay reports.

3. Is the joint financial management improvement program an appropriate vehicle for joint action on your financial reforms?

GAO RESPONSE: The JFMIP, has so far not proved to be highly effective in promoting financial management reform, although many of its studies have been valuable. It is not, however, constituted as an action-oriented organization. A much more fundamental organizational change is needed.

4. Will large capital investments be required for the reforms you propose?

GAO RESPONSE: Building an effective financial management structure for the federal government will require the design and installation of new systems over an extended period. Federal agencies and departments already are proposing major expenditures over the next 5 years to rectify deficiencies in their current systems, many of which have been identified through their Financial Integrity Act reviews. We believe the coordination of new and existing system development activities can yield major benefits at little additional cost. If system redesign efforts already underway in many agencies are to result in information useful to Congress, the President, and agency managers, it is essential that these efforts be guided by a consistent set of principles which will result in comparable information for comparable activities. All current and future financial management efforts must be coordinated to serve the needs of government as a whole, not just the agency whose immediate needs the system will serve.

5. OMB has recently undertaken several credit management initiatives. How well are these working and what more needs to be done to bring about business-like credit management in the federal government?

GAO RESPONSE: Since the Debt Collection Act was passed in 1982, OMB issued Circular A-70 on federal credit policy, and most recently issued A-129 on managing federal credit programs. There has been an increase in the attention that executive agencies have given to the debt collection area in the last 4 years.

Nonetheless, major agencies continue to report debt collection as a material weakness and in the most recent set of reports under the Financial Interity Act, 11 of 18 agencies included debt collection as a material problem area. We are finding that some of the major agencies with longstanding problems in the debt collection area have been slow in implementing the tools provided by the act and by OMB's requirements. In this regard, we believe that agency managers must now aggressively pursue and strongly emphasize those actions necessary to implement the act and OMB requirements, and to collect the government's outstanding debts. It seems to us that if we focus our efforts on collecting debts, we will be better able to reduce the deficit without cutting truly needed government programs and services.

ANNUAL MANAGEMENT REPORT

1. OMB has supported the requirement for an annual management report in concept but expresses concern about the reporting burden of S. 2004 in its present form.

   a. What is your reaction to these concerns?

   b. Is it reasonable for Congress to expect OMB to report in accordance with a framework that would be consistent year-to-year?

   c. Is it reasonable for Congress to expect OMB to report each year on progress--or lack of progress--in implementing the previous year's agenda?

   d. Is it reasonable for Congress to expect OMB to identify management problems and issues as well as its accomplishments?

GAO RESPONSE: We support the bill and the framework for reporting which it sets out. It requires delineating goals and objectives, outlining key issues in several important functional areas, and accounting for progress made, to help ensure continuity from year to year, notwithstanding changes in administrations.

S.2004, as currently written, provides OMB discretion on what to include in the areas enumerated by asking for a summary of major management improvement initiatives and accomplishments. OMB has issued rather extensive reports 2 years in succession. We believe that these are useful documents, and in large part meet the general intent of the legislation.

If the report is to be useful to the Congress, the Congress should have some say in the contents of the report. We feel, however, that the Congress should make clear how other Congressional reporting requirements should be reconciled with this bill in order to minimize the total burden.

The Senate Governmental Affairs Committee may desire additional information be included, but this can be addressed over time as the Congress makes known what should be included in the report. We believe this is a matter which GAO can address from year to year in our analysis of the report, as now required in the bill.

We believe there should be some consistency in reporting from year to year. This could encourage sustained attention to implementation over the course of an initiative, something we have found lacking in prior efforts. We also believe it is reasonable for Congress to expect OMB to report both the problems encountered in, and the accomplishments of, its initiatives. The government faces many difficult management problems and there are numerous obstacles to success. A forthright discussion of both problems and successes is a necessary prerequisite to congressional support for Administration management initiatives.

2. The Annual Management Report Bill, S. 2004, contains a provision requiring GAO to comment on the President's report within 90 days after its submission to Congress. What are your views on this provision?

GAO RESPONSE: We welcome this opportunity to assist the Congress in reviewing annually the overall progress of the Executive Branch in setting goals and achieving improvements in each of the key areas of management enumerated in the bill.

This reporting opportunity will also enable us to summarize for the Congress the results of GAO's Management Reviews and other work, and to identify the most pervasive and persistent management problems facing the President and his management team.

It will, of course, be impossible to perform a comprehensive audit of the annual report itself in the 90 day period. But we believe we can help Congress select the subjects which it might wish to emphasize in budget and oversight hearings, as well as those subjects worthy of more intensive audit during the remainder of the year.

PRODUCTIVITY

1. What are the prospects for successful implementation of the President's productivity initiative? What steps could the administration take to assure that this effort results in a lasting, long-term commitment to productivity improvement?

GAO RESPONSE: The Administration's program largely parallels productivity elements which we identified after (1) examining productivity management efforts in the private sector and in several state and local governments; (2) analyzing the literature on productivity; and (3) holding discussions with recognized authorities on productivity.

For the most part, the necessary elements to assure long term productivity improvement include:

--Top level support and commitment.

--A manager serving as a focal point for productivity in the organization.

--Written productivity objectives and goals and an organization-wide productivity plan.

--Productivity measures that are meaningful to the organization.

--Use of the productivity plan and measurement system to hold managers accountable.

--Awareness of productivity's importance throughout the organization, and involvement of all employees in the productivity effort.

--An ongoing activity to regularly identify productivity problems and opportunities for improvement throughout the organization.

Inclusion of these elements in agency productivity programs will help assure a successful productivity improvement effort in the government.

We cannot speculate on how successful this initiative will be. We are encourged by how OMB is structuring this effort. However, implementation will pose many challenges.
We can only assure the Committee that we recognize the importance of examining executive branch progress. We are planning to conduct a series of assignments which will enable us to report on the Administration's productivity improvement efforts. There are three aspects to this effort.

First, we will use our general management reviews as vehicles for monitoring department and major agency productivity programs.

Secondly, we will do independent assessments of the productivity efforts within major federal agencies. We have completed such efforts at the Federal Energy Regulatory Commission and the Social Security Administration.

Thirdly, we will draw upon the sum of our work to report annually on the implementation of OMB's productivity program.

2. What types of incentives or rewards could be used to achieve greater federal employee involvement in productivity improvement and to enable them to share in the benefits of increased productivity?

GAO RESPONSE: We believe that substantial productivity improvements can be achieved through maximum employee involvement. At the managerial level, certainly SES bonuses and merit pay performance awards could encourage maximum involvement. One set of tools that has proved effective in improving productivity in the private sector is monetary gainsharing programs (employees share in the savings generated directly by their increased productivity), and nonmonetary incentive programs (employees participate in the decisionmaking process via teams, or quality circles, which solicit, process, and implement work related suggestions).

There are various innovative incentive programs which could encourage and stimulate greater employee involvement.

We plan to evaluate the use of innovative incentive programs in federal agencies to provide the Congress and agencies with information on (1) the range of programs which exist; (2) problems preventing the successful establishment and operation of such programs; (3) a framework based on public and private experience that will enable agencies to establish successful efforts; and (4) the controls and reporting mechanisms necessary to ensure that programs operate as planned.

ELECTRONIC FUNDS TRANSFER

1. In your prepared statement, you express GAO's support for the government's use of electronic funds transfer (EFT) because it has the potential to increase controls over government payments while reducing costs.

a. Please explain what you mean by increased controls over government payments.

b. Has GAO prepared any reports or other documents that would indicate the amount of cost savings that would be obtainable if S.2009 were enacted, and if so, could you provide that information to the Committee?

GAO RESPONSE: EFT can increase controls over payments because it involves direct transmission to bank accounts instead of use of the mail. Examples of the benefits include:

--Reducing the instances of stolen checks, thus reducing the costs associated with substitute payments.

--Minimizing the payments made to deceased beneficiaries in programs such as Social Security and federal retirement since the bank is required to notify Treasury of the designated payee's death. This reduces the amount of time and effort necessary in recovering such improper payments.

We are not aware of any comprehensive GAO studies which have evaluated whether EFT is more cost effective than checks. We believe that it is up to Treasury to prepare such a study. This study should provide a comparison of the processing costs incurred by both Treasury and the Federal Reserve System for checks versus EFT transactions.

In evaluating EFT versus checks from a cost standpoint, two factors should be considered -- production costs and check float. According to Treasury, EFT payments are slightly cheaper to produce than checks. However, Treasury's cash is drawn down the same day that the EFT payments are made, whereas it may take several days for checks to be mailed, cashed, processed through the banking system, and eventually charged to Treasury's account at the Federal Reserve. Obviously, Treasury gains from this delayed drawdown of its funds. It is our understanding that Treasury has no recent studies to show how much float is gained for each category (payroll, vendor, ect.) of checks it issues. Consequently, it has no basis for determining the financial benefits associated with this float.

INSPECTOR GENERAL AMENDMENTS

1. In your statement, you refer to a 1984 report describing a number of problems in federal agency audit and investigative activities without statutory Inspectors General.

   a. What information do you have as to the current situation in those agencies?

GAO RESPONSE: The 1984 report, entitled Status of Internal Audit Capabilities of Federal Agencies Without Statutory Inspectors General (GAO/AFMD-84-45), contained the unverified results of a GAO survey questionnaire received from 99 agencies. A recent follow-on review of those agencies with audit and/or investigative groups, which was conducted for another congressional committee, uncovered many of the same problems that prompted Congress to establish Statutory Inspectors General in other agencies including

--a lack of audit independence at many agencies because auditors were under the supervision of officials directly responsible for activities subject to audit;

--inadequate audit coverage of important and vulnerable agency operations;

--lack of evaluation of significant fraud problems by internal audit/investigative staffs; and

--audit resolution and followup systems that did not meet governmental requirements.

   b. Did you find similar problems in earlier years?

GAO RESPONSE: Yes. Since the mid 1970s we have issued over 100 reports showing that federal internal audit organizations experienced problems that precluded them from being fully effective. Many of these problems at non-statutory internal audit units included a lack of audit independence, inadequate audit coverage, and poor audit resolution and followup procedures.

2. If the heads of internal audit units at smaller agencies were required to report periodically the significant problems and deficiences to the agency head and Congress, do you think it would foster greater attention to such deficiencies?

GAO RESPONSE: Most definitely. This dual reporting requirement would upgrade the status and visibility of existing audit/investigative units and undoubtedly result in increased attention to correcting deficiencies. We believe that a program manager's incentive to take appropriate action on audit recommendations is maximized by the fact that failure to do so would not only be reported to the head of the agency but also to Congress.

3. Section 6 of the S.2005 generally defines a federal entity subject to the bill's provisions as one having an internal audit staff. Please provide a list of the entities you believe would be covered.

GAO RESPONSE: Based on our most recent review, and our Office of General Counsel's informal analysis of the definition of an agency included in S.2005, the attached listing shows agencies that would be covered, their missions, staffing, funding, and the size of their audit and investigative staffs. The listing does not include those agencies excluded by S.2005, such as the Departments of Treasury and Justice, the Executive Office of the President, etc.

Attachment

Attachment

AGENCIES WITH AUDIT AND/OR INVESTIGATIVE UNITS

NOT SUBJECT TO IG LEGISLATION

Agency name and mission[a]	Total agency staff size FY 1984	Budget authority[b] FY 1984	Budget authority[b] FY 1985	Size of A/I staff[c] FY 1986
		(--dollars in millions--)		
ACTION				
ACTION's purpose is to mobilize Americans for voluntary service throughout the United States through programs which help meet basic human needs and support the self-help efforts of low-income individuals and communities.	480	$135.6	$149.3	11
Commodity Futures Trading Commission				
The Commission regulates trading on futures exchanges, commodity exchange members, public brokerage houses, Commission-registered futures industry sales people, and commodity trading advisors.	557	$ 26.7	$ 27.6	4
Consumer Product Safety Commission				
The purpose of the Consumer Product Safety Commission is to protect the public against unreasonable risks of injury from consumer products; to assist consumers to evaluate the comparative safety of consumer products; to develop uniform safety standards for consumer products and minimize conflicting state and local regulations; and to promote research and investigation into the causes and prevention of product-related deaths, illnesses, and injuries.	558	$ 35.3	$ 36.0	2

[a] Most mission statements were derived from The United States Government Manual, 1984/85.

[b] Budget authority and total agency staff (full-time permanent positions) were derived from Appendix, Budget of the United States, Government, FY 1986.

[c] Audit/investigative.

BEST COPY AVAILABLE

Agency name and mission	Total agency staff size FY 1984	Budget authority FY 1984	Budget authority FY 1985	Size of A/I staff FY 1984
		(--dollar in millions--)		
Equal Employment Opportunity Commission				
The purposes of the Equal Employment Opportunity Commission are to eliminate discrimination based on race, color, religion, sex, national origin, or age in hiring, promoting, firing, wages, testing, training, apprenticeship, and all other conditions of employment.	3,125	$154.0	$ 163.7	16
Export-Import Bank				
The Export-Import Bank of the United States aids in financing exports of U.S. goods and services. It has implemented a variety of programs to meet the needs of the U.S. exporting community.	327	$829.2	$3,939.7	4
Farm Credit Administration				
The Farm Credit Administration is responsible for the supervision, examination, and coordination of the borrower-owned banks and associations that make up the cooperative farm credit system.	287	None		3

Agency name and mission	Total agency staff size FY 1984	Budget authority		Size of A/I staff FY 1984
		FY 1984	FY 1985	
		(--dollar in millions--)		
Federal Communications Commission				
The Federal Communications Commission regulates interstate and foreign communications by radio, television, wire, and cable. It is responsible for the orderly development and operation of broadcast services and the provision rapid, efficient nationwide and worldwide telephone and telegraph services at reasonable rates. It also promotes safety of life and property through radio and the use of radio and television facilities to strengthen the national defense.	1,975	$ 89.0	$ 95.4	4
Federal Deposit Insurance Corporation				
The Federal Deposit Insurance Corporation was established to promote and preserve public confidence in banks and to protect the money supply through provision of insurance coverage for bank deposits and periodic examinations of insured state-chartered banks which are not members of the Federal Reserve System.	3,554	None		42
Federal Election Commission				
The Federal Election Commission administers, formulates, and seeks to obtain compliance with the campaign financing provisions of the Federal Election Campaign Act of 1971, as amended, and Title 26 of the United States Code.	225	$ 10.7	$ 13.0	1

Agency name and mission	Total agency staff size FY 1984	Budget authority		Size of A/I staff FY 1984
		FY 1984	FY 1985	
		(--dollar in millions--)		
Federal Emergency Management Agency				
The Federal Emergency Management Agency was created to provide a single point of accountability for all federal emergency preparedness, mitigation, and response activities. The agency is chartered to enhance the multiple use of emergency preparedness and response resources at the federal, state, and local levels of government in preparing for and responding to the full range of emergencies--natural and manmade--and to integrate into a comprehensive framework activities concerned with hazard mitigation, preparedness planning, relief operations, and recovery assistance.	2,322	$658.0	$529.8	36
Federal Home Loan Bank Board				
The Federal Home Loan Bank Board was established to encourage thrift and economical home ownership. The Bank Board supervises and regulates savings institutions, which specialize in the financing of residential real estate and are the country's major private source of financing for the construction and purchase of homes.	641	None		12
Federal Maritime Commission				
The Federal Maritime Commission regulates the waterborne foreign and domestic offshore commerce of the United States, ensures that United States international trade is open to all nations on fair and equitable terms, and protects against unauthorized, concerted activity in the waterborne commerce of the United States.	232	$ 10.9	$ 12.3	2

Agency name and mission	Total agency staff size FY 1984	Budget authority FY 1984	Budget authority FY 1985	Size of A/I staff FY 1984
		(--dollar in millions--)		
Federal Mediation and Conciliation Service				
The Federal Mediation and Conciliation Service represents the public interest by promoting the development of sound and stable labor-management relationships; preventing or minimizing work stoppages by assisting labor and management to settle their disputes through mediation; advocating collective bargaining, mediation, and voluntary arbitration as the preferred processes for settling issues between employers and representatives of employees; developing the art, science, and practice of dispute resolution; and fostering constructive joint relationships of labor and management leaders to increase their mutual understanding and the solution of common problems.	365	$ 23.3	$ 23.8	5
Federal Reserve System				
The Federal Reserve System, the central bank of the United States, is charged with administering and making policy for the nation's credit and monetary affairs. Through its supervisory and regulatory banking functions, the Federal Reserve helps maintain the banking industry in sound condition, capable of responding to the nation's domestic and international financial needs and objectives.	1,560	None		3
Inter-American Foundation				
The Inter-American Foundation is an independent government corporation that supports social and economic	67	$ 13.0	$ 12.0	2

Agency name and mission	Total agency staff size FY 1984	Budget authority FY 1984	Budget authority FY 1985	Size of A/I staff FY 1984
		(--dollar in millions--)		
development in Latin America and the Caribbean. It makes grants primarily to private, indigenous organizations that carry out self-help projects benefiting poor people.				
Interstate Commerce Commission				
The Interstate Commerce Commission regulates interstate surface transportation, including trains, trucks, buses, water carriers, freight forwarders, transportation brokers, and a coal slurry pipeline. The commission ensures that the carriers it regulates will provide the public with rates and services that are fair and reasonable.	1,023	$ 58.8	$ 53.5	2
Merit Systems Protection Board				
The Merit Systems Protection Board protects the integrity of federal merit systems and the rights of federal employees working in the systems. In overseeing the personnel practices of the federal government, the board conducts special studies of the merit system, hears and decides charges of wrongdoing and employee appeals of adverse agency actions, and orders corrective and disciplinary actions against an executive agency or employee when appropriate.	440	$ 24.3	$ 25.3	3

Agency name and mission	Total agency staff size FY 1984	Budget authority FY 1984	Budget authority FY 1985	Size of A/I staff FY 1984
		(--doller in millions--)		
National Credit Union Administration				
The National Credit Union Administration is responsible for chartering, insuring, supervising, and examining federal credit unions and for administering the National Credit Union Share Insurance Fund. It also manages the Central Liquidity Facility, a mixed-ownership government corporation whose purpose is to supply emergency loans to member credit unions.	604	$ 223.3	$ 46.1	2
National Endowment for the Arts				
The goal of the National Endowment for the Arts is the fostering of professional excellence of the arts in America, to nurture and sustain them, and to help create a climate in which they may flourish so they may be experienced and enjoyed by the widest possible public.	244	$ 162.2	$ 163.7	7
National Endowment for the Humanities				
The National Endowment for the Humanities is an independent grant-making agency established by the Congress in 1965 to support research, education, and public programs in the humanities.	235	$ 140.9	$ 140.2	7
National Labor Relations Board				
The National Labor Relations Board administers the nation's laws relating to labor relations. It is vested with the power to safeguard employees' rights to organize, to determine through elections whether workers want unions as their bargaining representatives, and to prevent and remedy unfair labor practices.	3,213	$ 133.6	$ 136.9	6

Agency name and mission	Total agency staff size FY 1984	Budget authority FY 1984 (--dollar in millions--)	Budget authority FY 1985 (--dollar in millions--)	Size of A/I staff FY 1984
National Science Foundation				
The National Science Foundation promotes the progress of science and engineering through the support of research and education programs. Its major emphasis is on high quality, science-driven research, the search for improved understanding of the fundamental laws of nature upon which our future well-being as a nation depends. The National Science Foundation also supports applied research in several areas. Its educational programs are aimed at ensuring increased understanding of science at all educational levels and an adequate supply of scientists and engineers to meet our country's needs.	1,182	$1,328.3	$1,505.5	13
National Transporation Safety Board				
The National Transportation Safety Board seeks to ensure that all types of transportation in the United States are conducted safely. The board investigates accidents, conducts studies, and makes recommendations to government agencies, the transportation industry, and others on safety measures and practices.	355	$ 21.0	$ 21.9	0

Agency name and mission	Total agency staff size FY 1984	Budget authority FY 1984	Budget authority FY 1985	Size of A/I staff FY 1984
		(--dollar in millions--)		
Nuclear Regulatory Commission				
The Nuclear Regulatory Commission licenses and regulates the uses of nuclear energy to protect the public health and safety and the environment. It does this by licensing persons and companies to build and operate nuclear reactors and to own and use nuclear materials. The commission makes rules and sets standards for these types of licenses. It also carefully inspects the activities of the persons and companies licensed to ensure that they do not violate the safety rules of the commission.	3,332	$ 465.8	$ 443.9	26
Office of Personnel Management (OPM)				
The Office of Personnel Management administers a merit system for federal employment, which includes recruiting, examining, training, and promoting people on the basis of their knowledge and skills, regardless of their race, religion, sex, political influence, or other nonmerit factors. OPM's role is to ensure that the federal government provides an array of personnel services to applicants and employees. Through a range of programs designed to develop and encourage the effectiveness of the government employee, OPM supports government program managers in their personal management responsibilities and provides benefits to employees directly.	3,562	$53,087.2	$56,374.5	48[d]

[d] Includes 33 auditors limited to auditing insurance providers.

Agency name and mission	Total agency staff size FY 1984	Budget authority		Size of A/I staff FY 1984
		FY 1984	FY 1985	
		(--dollar in millions--)		
Panama Canal Commission				
The Panama Canal Commission maintains and operates the Panama Canal and the facilities and appurtenances related thereto, coordinates the operation of the waterway and other activities with the Republic of Panama, and correlates joint actions in harbors and port areas, certain housing and public areas, and some civil protection functions.	7,833	$ 413.7	$ 429.8	19
Peace Corps				
The Peace Corps' purpose is to promote world peace and friendship, to help the people of other countries in meeting their needs for trained manpower, to help promote a better understanding of the American people on the part of the peoples served, and to promote a better understanding of other peoples on the part of the American people. In 1977, the Peace Corps Act was amended to emphasize the Peace Corps' commitment toward programming to meet the basic needs of those living in the poorest areas of the countries in which the Peace Corps operates.	880	$ 117.2	$ 127.9	10
Pension Benefit Guaranty Corporation				
The Pension Benefit Guaranty Corporation guarantees basic pension benefits in covered private plans if they terminate with insufficient assets.	476	None		5

Agency name and mission	Total agency staff size FY 1984	Budget authority FY 1984	Budget authority FY 1985	Size of A/I staff FY 1984
		(--dollar in millions--)		
Railroad Retirement Board[a]				
The Railroad Retirement Board administers comprehensive retirement-survivor and unemployment-sickness benefit programs for the nation's railroad workers and their families, under the Railroad Retirement and Railroad Unemployment Insurance Acts. In connection with the retirement program, the Board has administrative responsibilities under the Social Security Act for certain benefit payments and railraod workers' Medicare coverage.	1,518	$11,392.0	$12,802.6	16
Securities and Exchange Commission				
The Securities and Exchange Commission provides the fullest possible disclosure to the investing public and protects the interests of the public and investors against malpractices in the securities and financial markets.	2,021	$ 94.0	$ 106.4	3

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[a] While authorizing legislation for this agency requires a statutory IG, at the time of our review no IG had been appointed and the Office of Audit was not operating as a statutory IG office. Consequently, we included this agency in the survey.

Agency name and mission	Total agency staff size FY 1984	Budget authority		Size of A/I staff FY 1984
		FY 1984	FY 1985	
		(--dollar in millions--)		
Tennessee Valley Authority				
The Tennessee Valley Authority is a government-owned corporation that conducts a unified program of resource development for the advancement of economic growth in the Tennessee Valley region. The Authority's program of activities includes flood control, navigation development, electric power production, fertilizer development, recreation improvement, and forestry and wildlife development. While its power program is financially self-supporting, other programs are financed primarily by Congressional appropriations.	22,957	$449.7	$553.5	71
United States Information Agency				
The United States Information Agency, formerly the United States International Communication Agency, is responsible for the U.S. government's overseas information and cultural programs, including the Voice of America and the Fulbright scholarship program.	8,999	$666.9	$797.6	10

QUESTIONS FOR MR. BOWSHER submitted by SENATOR COHEN

Simplified Competitive Acquisition Technique

1. Mr. Bowsher, as you know, the Administration has submitted to Congress a proposal to simplify the competitive acquisition process, known as SCAT, which was introduced by request by Senator Roth. Do you support the approach SCAT takes to shorten procurement lead times?

GAO RESPONSE: We agree that shortening the procurement leadtime would be desirable. However, we have major reservations with certain provisions of S.2008 and do not support passage of the bill in its current form.

First, the bill would effectively eliminate the "stay" provisions recently established by the Competition in Contracting Act of 1984 (31 U.S.C.A. section 3552 (c) and (d)). These provisions require contracting agencies generally to stay the award of a contract or suspend the performance of an awarded contract if a bid protest is filed within 10 days of the award, until GAO issues a decision. The stay provision would not apply to protests filed with the contracting agency under section 5 of the bill. Thus, a protester would lose the benefit of the stay unless it could file a subsequent protest with GAO, either before award is made or within 10 days of contract award.

Second, SCAT would provide for (1) a 5-day interval between publication of a notice in the Commerce Business Daily of an intent to procure and issuance of a solicitation, and (2) a 15-day interval between solicitation issuance and the deadline for submission of proposals. Currently, agencies are required to allow 15 and 30 days, respectively. The current time frames are intended to widen competition by permitting more potential contractors to be aware of and have time to compete for federal contracts and subcontracts. The bill's provisions for shorter intervals would conflict with this congressional intent.

Third, SCAT would completely exclude the use of pre-award audit to verify that contractors' proposals are current, complete and accurate. We are concerned that if the possibility of pre-award audit is eliminated, it could result in contractors inflating proposed prices. We are not recommending that all SCAT contracts be subjected to pre-award audit but rather that the complete absence of the threat of audit could have a harmful effect on price.

2. SCAT would apply to contracts between $25,000 to $5 million, which account for the vast majority of actions over the small purchase threshold. Assuming you support SCAT's approach, would you recommend that it should be used for all eligible contract actions, or should SCAT be reserved as an alternative procedure for those contracts that otherwise would be awarded noncompetitively based on "unusual and compelling" circumstances?

GAO RESPONSE: We have indicated that we do not support passage ofSCAT in its current form. Assuming our concerns can be addressed, we believe the SCAT process should be tested on a limited basis using the authority that presently exists under the OFPP Act Amendments of 1983 (P.L. 98-191 Section 15). This testing would identify the areas where the SCAT process may be beneficial to the government.

3. One SCAT critic, looking at the process from a private sector perspective, maintains that:

> SCAT unfairly places the burden of shortening the procurement cycle upon the private sector. The length of this cycle, however, is largely the result of a cumbersome process internal, to the procuring agencies. The executive departments should first streamline -- and automate, if necessary -- their own part in the acquisition process. If that is done rigorously, there will be no real need for SCAT.

Do you agree with this criticism of SCAT, or do you believe that both parties -- the government and contractor -- contribute to the long lead-time problem and should, therefore, share the burden of remedying it?

GAO RESPONSE: We are not in a position to reach a definitive conclusion on the relative contributions of the government and the contrators to the long procurement lead time. However, we offer two observations. First, the length of the current procurement process results in part from steps that have been taken to assure that all qualified contractors get the opportunity to compete for government contracts. SCAT, in reducing the periods (1) for advance notice prior to issuing a solicitation and (2) between issuance of the solicitation and the deadline for receipt of offers, would have a negative impact on the objective of broadening competition, while reducing the estimated 260 average day lead time by 25 days. That leaves 235 days for analysis and possible streamlining. This leads to our second observation. OMB notes that the evaluation-source selection process, which it estimates consumes 150 days, is administratively controllable. It appears then that this is a good starting point for searching for ways to reduce the length of the procurement lead time.

4. The SCAT proposal contains several amendments to existing law that raise some concern.

A. First, SCAT would reduce time period requirements for publication of proposed procurements in the Commerce Business Daily from 45 to 20 days. Do you believe that reducing the CBD time periods by more than half leaves sufficient time for a prospective bidder to send for and receive a solicitation in the mail, prepare a bid, and transmit it to the agency before the deadline? If not, is a reduction of 25 days in an otherwise lengthy procurement process worth what many small business organizations anticipate will be a significant loss of competition.

GAO Response: The current timeframes are intended to widen competition by permitting more potential contractors to be aware of and compete for federal work. While it is not possible to quantify the specific impacts of reducing this timeframe, it would likely result in some reduction in competition. We believe that the impact of this change would vary greatly depending upon what item or service is being purchased.

B. Second, SCAT would require that protests against procurements must first be filed with the agency contracting officer prior to any portest action being taken outside the agency. Do you believe that agency contracting officers are likely to change their position on protested procurements. Some critics speculate that, more often than not, agency contracting officers wil defend their original decision. If that's the case, would this SCAT requirement actually add to, rather than reduce, procurement lead times? How does this provision affect the filing requirements before the General Accounting Office and the General Services Board of Contract Appeals, since protestors can only proceed after agency contracting officer has rendered a decision?

GAO RESPONSE: It would be uncharacteristic of contracting officers to change their position in view of a protest. While additional time may result, our primary concern regarding this change in the bid protest process is that the bill would eliminate the "stay" provisions established in the Competition in Contracting Act of 1984. The "stay" provision would not apply to protests filed with the contracting officer.

C. Finally, SCAT would prohibit the use of pre-award audits. In light of the plethora of spare parts controversies that, to this day, continue to make news, this provision appears to run contrary to the prevailing view that every effort should be made to ensure price reasonableness. Would you agree that pre-awards audits are unnecessary? Is there a trade-off between reducing procurement lead times and making sure that the government is getting its money's worth?

GAO RESPONSE: We continue to support the use of preaward audits where appropriate. We are not suggesting that all SCAT contracts would require preaward audit. However the complete absence of the threat of audit could result in contractors inflating proposed prices.

5. The three legislative changes proposed under SCAT constitute only a portion of the simplification proposal. Would the SCAT effort still be meaningful, again assuming that you agree with the approach, if the changes to existing law were not adopted? What modifications would you propose to SCAT, if any, to address concerns you might have?

GAO RESPONSE: The SCAT process could be meaningful assuming hard evidence is developed to support its benefits. We suggest that the SCAT proposal be tested on a limited basis to quantify its potential benefits and possible harmful effects. This would provide the data needed to fairly assess the SCAT concept.

BY THE COMPTROLLER GENERAL

Report To The Congress

OF THE UNITED STATES

Strong Leadership Needed To Improve Management At The Department Of Labor

This is one in a series of GAO reports evaluating management effectiveness at major cabinet-level departments and agencies. The last 5 years have been a period of significant change for the Department of Labor. Several of Labor's missions have been redefined or refocused; its budget and work force have been substantially reduced; and key constituent groups have questioned the effectiveness of some of its major programs.

Labor has taken several positive steps to address its management problems. However, Labor needs stronger leadership to more effectively address them and improve its performance and image. It also needs to strengthen management of its work force and financial operations.

Soon after taking office, Secretary Brock acted to address the management problems GAO identified and demonstrated the degree of commitment and support GAO believes is essential to improve Labor's management.

GAO/HRD-86-12
OCTOBER 21, 1985

COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON D.C. 20548

3-219199

To the President of the Senate and the
Speaker of the House of Representatives

This report discusses the need for stronger leadership at the Department of Labor and is one of a series GAO is issuing on the management of major departments and agencies. Our purpose was to assess Labor's management, analyze problems and determine their underlying causes, and recommend actions to improve operations.

On June 13, 1985, we briefed Secretary Brock on the results of our work and the actions we believed necessary to increase program effectiveness through better management. The Secretary agreed with most of our recommendations and acted promptly to address them. In addition to discussing specific actions the Department can take to improve management, the report points out actions the Congress could take to improve and sustain sound management at Labor.

We are sending copies of this report to the Secretary of Labor; the Director, Office of Management and Budget; and interested congressional committees, subcommittees, and individual members.

Charles A. Bowsher
Comptroller General
of the United States

EXECUTIVE SUMMARY

Effective implementation of policy initiatives depends on well-managed programs. Too often the government focuses on policy issues rather than the management structure and systems needed to effectively implement policies. GAO has undertaken several broad reviews to focus on management. This report on the Department of Labor is one in a series GAO is issuing on major cabinet-level departments and agencies.

By focusing on the Department's major missions and relating managerial problems to programs and the needs of top officials, GAO sought to demonstrate how management could be improved to avoid crises by identifying and handling emerging issues; minimize vulnerability by implementing and controlling management systems for efficient and effective program delivery; and operate financial, procurement, and automated data processing systems in a business-like way.

BACKGROUND

The Labor Department administers more than 130 laws to promote and develop the welfare of wage earners, their working conditions, and their opportunities for profitable employment. Outlays for fiscal year 1985 were estimated at about $23.5 billion, of which $18.3 billion will be spent on the nation's unemployment insurance program.

Labor is a conglomerate of largely independent agencies. According to former Labor officials, Secretaries have generally focused on external matters rather than on managing the Department's programs. There has been a high turnover rate of political appointees in top program management positions (about every 26 months). Also, over 80 percent of Labor's expenditures are managed at the state and local levels.

The last 5 years have been a time of major change at the Department. Federal regulatory approaches have shifted, and greater reliance is being placed on state governments and the private sector to operate Labor's programs. Labor has had significant funding and staff decreases. These changes have caused some management problems.

To identify key issues and problems, GAO sent a questionnaire to program managers in headquarters and four regional offices. GAO also reviewed selected program activities, talked to interest groups and experts that knew about the Department, and reviewed seven functional areas department-wide: planning and budgeting, personnel, productivity, procurement, financial management, information resources management, and audit, review, and evaluation. In addition, earlier reports on Labor by GAO and others were reviewed.

RESULTS IN BRIEF

Labor needs strong Secretarial leadership.

GAO briefed Secretary Brock on June 13, 1985, about 1 month after he became Secretary, regarding management problems, their causes, and possible solutions. The Secretary acted quickly, calling upon agency officials to develop an action plan to deal with the problems. On July 25, 1985, he received a detailed action plan to begin addressing the problems.

Those problems involved (1) limited management planning and control that have reduced Labor's ability to identify and address emerging issues and problems and identify program activities that could be vulnerable to fraud and waste; (2) limited attention to enhancing work force quality and efficiency, resulting in staffing needs often not being identified and managers not always being held accountable; and (3) lack of strong Secretarial support for management systems, resulting in component agencies operating administrative support systems that do not always adhere to central policies or give the Secretary sufficient information to manage operations.

PRINCIPAL FINDINGS

Following are the major findings presented to Secretary Brock on June 13.

Stronger Direction

Labor had no systematic department-wide long-range policy planning process. As a result, the Department generally operated in a reactive rather than a proactive mode. Some long-standing problem areas that could have benefited from long-term planning include: (1) determining how best to use Labor's 200 investigators to achieve a credible enforcement program covering over 900,000 pension plans, (2) reducing the lengthy time involved in issuing regulations, and (3) integrating acquisition and use of automated data processing resources without unduly constraining component operations.

In addition, the Secretary generally did not identify key priorities or systematically track progress. Labor's process resulted in more than 300 agency-generated objectives, of which about 90 were categorized as critical. The large number of objectives--critical and other--made it difficult to determine what was really important, track progress, and hold managers accountable. However, where the Secretary did identify his priorities, such as implementing the Job Training Partnership Act quickly and shifting Labor's approach to enforcement, results were achieved.

Better Control

GAO's analysis of Labor's control and oversight mechanisms showed that (1) information systems did not always provide sufficient data on mission attainment; (2) monitoring of programs primarily operated at the state and local levels may not be identifying vulnerable areas; and (3) audits, reviews, and evaluations were often not perceived by program managers as identifying and resolving problems.

Enhance Work-Force Management

Labor has had nine reductions-in-force since 1982. A key goal was to dismiss as few people as possible. This was achieved, but at a cost. Some inexperienced people were placed in jobs with subsequent losses in efficiency in some program units, low staff morale, and possible long-term problems in filling managerial positions. The adverse effect of these reductions might have been lessened if Labor had better identified and planned for long-term staffing needs.

Also, Labor's training and management development programs lacked credibility among many program managers, and significant variations existed among agencies in the awards given for outstanding performance, in actions to improve poor performance, and in demotions and removals based on poor performance.

Improve Support Functions

Labor has not operated key support functions--financial management, automatic data processing, procurement, and productivity improvement--as effectively or efficiently as possible. This is largely due to components' not adhering to central policies. For example, a 1979 Department-wide policy to improve productivity was adopted, but little systematic action has resulted. Improved productivity at Labor is especially important since the Department is carrying out its mission with fewer resources. Also, funding limitations have often been exceeded by component agencies, raising the potential for Anti-Deficiency Act violations.

RECOMMENDATIONS

GAO is recommending a series of actions to the Secretary of Labor to deal with specific management problems. Broader recommendations--such as designating a key official above the assistant secretary level to focus on management--involve strengthening Secretarial direction, tracking, and support systems to hold managers accountable.

The Congress could facilitate improvements by reaching agreement with the Secretary on key management issues to be addressed and ways to measure progress through periodic oversight efforts.

AGENCY COMMENTS

The Secretary agreed with the need to strengthen leadership and improve management and with almost all GAO's major recommendations. He described many improvements that have been made and that are planned or underway. Among the actions the Secretary said the Department would take are (1) articulating long-term goals, (2) developing and implementing an effective system for initiating and for managing Secretarial initiatives and goals, and (3) designating the Under Secretary to handle day-to-day management on his behalf.

Labor did not fully agree with GAO on the need to improve implementation of the Federal Managers' Financial Integrity Act for programs operated at the state and/or local levels. GAO continues to believe Labor needs to improve in this area. (See pp. 94 and 104.)

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United States Senate
COMMITTEE ON
GOVERNMENTAL AFFAIRS
WASHINGTON, DC 20510

November 13, 1985

The Honorable William E. Brock III
Secretary
Department of Labor
200 Constitution Avenue, N.W.
Washington, D.C. 20210

Dear Bill:

We recently received the Comptroller General's report entitled, "Strong Leadership Needed to Improve Management at the Department of Labor" (GAO/HRD-86-12, October 21, 1985). The Committee has kept abreast of these GAO management reviews, and it will be following closely the departmental actions to implement the Comptroller General's recomendations.

We were very pleased that you have taken a strong personal interest in this study and that you are personally committed to improving the management of your Department. We will, of course, be receiving your response to this report pursuant to section 236 of the Legislative Reorganization Act of 1970, but we want to bring now to your attention the matters of special interest to this Committee.

On the overall management of the Department, we look forward to your comments on the additional actions you will be taking to strengthen the Department's long-range policy planning process, identify and track key Secretarial objectives, focus more attention on management through the Under Secretary, upgrade the management of information resources, improve productivity, and strengthen financial accounting and reporting. We believe it is essential that agencies take a strategic approach to managing their operations and that top managers have a good understanding of how their policies and congressional mandates are being implemented.

At the program level, we are especially interested in program monitoring and oversight of the Job Training Partnership Act (JTPA) and Unemployment Insurance (UI) programs. As you know, our Committee was responsible for enactment of both the Federal Managers Financial Integrity Act and the Single Audit Act. The Comptroller General has raised important questions concerning the application of these two laws to the JTPA and UI programs. We want to know not only how you will respond to GAO's recommendations but also how you see these two laws as impacting on your ability to minimize fraud and abuse in these programs.

The Honorable William E. Brock III
November 13, 1985
Page 2

Another issue of considerable concern to us is the Department's enforcement of the Employee Retirement Income Security Act (ERISA). Last July, as you know, the Subcommittee on Oversight of Government Management conducted hearings on this issue. GAO's report identifies many of the same problems as were discussed at the Subcommittee's hearings. These include the Department's lack of a comprehensive, long-term enforcement strategy, the limited review of benefit plans due to the small number of investigators (200) responsible for monitoring the more than 900,000 pension plans, and the absence of effective, ongoing training for the Department's professional staff.

These and other problems cited by GAO are longstanding. The report points out that the Department's effectiveness in protecting pension plan beneficiaries has been repeatedly criticized by a number of different organizations during the past 10 years. We know that you share our commitment to improving the enforcement of ERISA, and we ask that you provide us with your specific plans to remedy the problems outlined in the GAO report.

GAO's report also urges increased congressional attention on management issues such as enhancing managerial direction and control, improving accountability for agency-wide management functions, and providing more continuity in the top management team. Achieving progress on some of these issues goes beyond the purview of individual agency managers and requires action by the Congress and the President. Given your interest in management and your experience in both the legislative and executive branches, we would welcome your views on ways in which the Committee could focus attention on such issues and take specific actions to strengthen the Government's management leadership and internal management systems.

We may want to pursue these issues and your efforts to implement the Comptroller General's recommendations in oversight hearings next year. Meanwhile, we look forward to keeping abreast of your further progress during the coming months in responding to this report.

Sincerely,

William V. Roth, Jr.
Chairman

Bill
William S. Cohen
Chairman, Subcommittee on
Oversight of Government
Management

cc: Charles Bowsher
James Miller III

U.S. DEPARTMENT OF LABOR
SECRETARY OF LABOR
WASHINGTON, D.C.

December 12, 1985

The Honorable William V. Roth, Jr.
Chairman
Committee on Governmental Affairs
United States Senate
Washington, D. C. 20510

Dear Mr. Chairman:

I greatly appreciated receiving your and Bill Cohen's thoughts on some of the critical areas addressed in the General Accounting Office report on management in the Department of Labor. As I told Charles Bowsher when he briefed me on his office's preliminary findings, I am personally committed to improving the management of this agency, and I look forward to a close, cooperative working relationship with the Congress as we proceed.

As soon as I had digested the information Mr. Bowsher had given me, I established ten "Blue Ribbon" task forces consisting of senior departmental executives and program specialists to begin analyzing the GAO findings and developing action plans for correcting the deficiencies identified. These task forces also worked very actively with the GAO staff as specific report sections were drafted. Thus, well before issuance of the final report we were moving out very positively to make needed improvements.

The actions we have taken so far and our future plans will be addressed fully in our formal response to GAO's report and in the annual report that I will make to the Congress and the President in mid-December as required by the Federal Managers' Financial Integrity Act (FMFIA). I'd like to focus here on the specific areas of interest expressed in your November 13 letter.

As you know, since I assumed this position in the spring I have given considerable attention and priority to improving the internal management of the Department of Labor. The General Accounting Office noted the absence of any clear Secretarial goals and objectives, a serious deficiency that I rectified earlier this fall. I have presented to my senior executives my key, long-range goals and required that they develop supporting objectives in all program areas. These goals and objectives will provide the basis for Fiscal Year 1986 operating plans including measurable milestones and budgets, and for performance standards for those in the Senior Executive Service.

These Secretarial goals are central to the development of a set of long-range plans for the Department of Labor. It is my intention to retain a strong linkage between such plans and the out-year Presidential budget proposals that I submit to the Office of Management and Budget. To this end, we will initiate our planning process for Fiscal Years 1987-1988 early this coming spring and include a major emphasis on the out-years.

There has also been a need for an official above the Assistant Secretary level to perform day-to-day management tasks on my behalf. Under Secretary of Labor Whitfield has been given this role. He has been specifically designated as the official responsible for overseeing essential management systems, ensuring a quality work force and accountability, and monitoring and using performance data. He will necessarily give close attention to managing our information resources, improving productivity, and strengthening financial accounting and reporting.

Two of the "Blue Ribbon" Task Forces I established addressed GAO's comments on our implementation of our oversight and monitoring responsibilities for the Job Training Partnership Act (JTPA) and the Unemployment Insurance (UI) program. They also addressed FMFIA coverage of State operations under JTPA and UI. Excerpts from their reports to me, with which I fully concur, are enclosed for your information. In summary, we already have a very comprehensive set of oversight activities that rely in part on the Single Audit Act. However, we do not believe the FMFIA, as presently written, requires formal vulnerability assessments of State operations. This is not a substantive issue, in our opinion, because through all of the oversight and monitoring work, the intention and purpose of the FMFIA are being effectively accomplished. While improvements can always be made, we are confident that the current level of oversight is adequate to provide reasonable assurance that control objectives for which we are responsible are being met.

The concerns expressed in your letter about the Department's enforcement of the Employee Retirement Income Security Act (ERISA) are ones that I share. As you know, I have elevated the agency head for the Office of Pension and Welfare Benefit

Programs to the Assistant Secretary level. Dennis M. Kass has recently been confirmed in that position, and he and David M. Walker, Deputy Assistant Secretary, are reviewing the program's operation. They will give particular attention to the reports and recommendations made by GAO and others that have evaluated the ERISA program.

In response to the specific comments in the GAO report, OPWBP has given recent focus to the subject of training, and will be conducting an intensive training program early in 1986 on the ERISA statutory responsibilities and investigative skills. In addition, several other smaller training programs were held during Fiscal Year 1985. The need for a consistent, long-term enforcement strategy has the highest priority for OPWBP. Messrs. Kass and Walker are fully committed to developing and implementing such a strategy during the current fiscal year, and they and their staffs have already begun work on this project. Finally, in regard to the limited review of employee benefit plans in relation to the number of investigators, OPWBP is considering a proposal for a system of electronic filing, pursuant to which data required to be filed on Forms 5500 will be more quickly available to the Department and in a form which can be instantly retrieved. This project is a long-range solution to what has been a ten-year problem in obtaining Forms 5500 rapidly and being able to extract relevant data from such forms. As we reach milestone events in each of these three critical areas, I would be happy to inform you of our results.

In fact, it occurs to me that perhaps the best approach to addressing increased congressional attention to management issues, as proposed by GAO's report, is to enhance two-way communications on subjects of mutual concern. While formal oversight hearings certainly have a role to play, it seems much more fruitful to maintain close, cooperative working relationships based on open communications on a day-to-day basis.

It would also be helpful if your committee were to suggest to GAO that it supplement its traditional focus on deficiencies in management by identifying systems, procedures and practices in the various agencies that are notably effective. It could then, either directly or through your committee, disseminate these examples of good management to other Federal agencies.

On a more personal note, my selection of a team of senior executives to lead the Department's agencies is well underway. These officials share my views on the broad strategies, purposes and directions of our work and, of course, on the need for financial restraint. One of the most difficult tasks we will face, and one in which congressional interest and involvement is vital, is the setting of program and management priorities. To the extent that a political consensus can be reached, our management job is much easier.

Finally, I believe that the Congress can facilitate a more cooperative relationship with the Executive Branch by consistently supporting efforts that promote employee morale, initiative, and productivity. Congress should also support efforts that lead to the adoption of modern, cost-effective automated systems for the handling of recurring processing or data manipulation. In both of these kinds of situations, it may be necessary to spend a little money upfront, in order to achieve greater economy later. Lastly, I think that while congressional involvement should be positive, active and consistent, it should also focus at a policy rather than a micro or case level.

I hope the information presented here, as well as my thoughts and ideas, will be useful to you. I look forward to our continuing work together and welcome the opportunity to engage in a meaningful dialogue at any time.

Very truly yours,

Bill Brock

WILLIAM E. BROCK

Enclosure

WEB:fvd

OVERSIGHT OF THE JOBS TRAINING PARTNERSHIP ACT

Primary responsibility for oversight activities at the local level rests with the States. They are responsible both for conducting or arranging for financial audits of JTPA expenditures and for conducting program monitoring. Where financial problems are identified (fraud, abuse, misexpenditure of funds, etc.), States are required to take appropriate actions with respect to recovering these funds, including notifying the Department of Labor (20 CFR 629.42; 629.44; 629.54). The State is also responsible for identifying appropriate corrective actions to be taken ro resolve program deficiencies identified during onsite monitoring (Section 629.43). Finally, States are also required to file Incident Reports where they identify instances of fraud, abuse, etc. (20 CFR 629.55).

The Department of Labor is carrying out oversight through three separate initiatives. The first is a review of the State administration of the JTPA program. DOL Regional Offices conduct annual reviews of State administration of the various systems involved in administering the program. These reviews are designed to assure that the State is, in fact, following up on all statutory and regulatory requiremenets and is taking appropriate action to correct any deficiencies which may be identified. A part of these reviews includes analyzing information contained in annual reports submitted to the Department. However, the primary approach is the conducting of onsite reviews.

During such reviews, DOL staff may identify incidences of fraud, abuse, etc. In such situations, DOL staff are required to file Incident Reports which are reviewed by DOL staff at both the Regional and National Office levels. These reports, which contain review findings and recommendations, are also transmitted to the States. In addition, a summary report is prepared on a quarterly basis which compiles the results of all the compliance reviews done to date. This summary report is sent to National Office Executive Staff for review and comment.

The second initiative is the DOL oversight of recipients' financial and compliance (F & C) audits. The single audit concept has been in operation since 1978 and has been further solidified by the Single Audit Act of 1984. While State and local recipients, as previously mentioned, are responsible for cyclical F & C audit coverage, DOL is responsible for implementing OMB/GAO audit guidance. Guidance issued to date includes: Block Grant Audit and Framework Report and OMB Circulars A-102 and A-128. DOL has developed and will soon issue guidelines outlining procedures for review and Federal resolution of State level and certain Service Delivery Area audit findings. Procedures are also in place for resolving audits of nationally administered grants and contracts. Finally, DOL also monitors its own grants management function through the vulnerability assessment process as required by the Federal Managers' Financial Integrity Act of 1982.

The third initiative involves the responsibilities of the Office of the Inspector General with respect to performing nationwide economy, efficiency and effectiveness reviews. An example of OIG reviews was a review of States' internal control systems conducted prior to the implementation of JTPA.

OVERSIGHT OF THE UNEMPLOYMENT INSURANCE PROGRAM

1. Comprehensive Oversight Planning

The elements of a comprehensive plan for the oversight of the UI program are currently in existence and include the mechanisms for problem identification, determination of corrective action, reporting and follow up.

A. Conformity/Compliance

The Secretary of Labor must certify on October 31 of each year that the unemployment compensation law of each State conforms with the requirements of Federal law (Section 3304(a) of the Federal Unemployment Tax Act (FUTA) and complies substantially with the Federal legal requirements to receive grants for administration of its program under Title III of the Social Security Act. The requirements are clear and are applied consistently.

The development of State UI laws is monitored throughout the year by the Department. States are required to submit proposed State legislation for UI review to assure conformity with Federal law. Problems discovered are made known to the State. If the problem is not resolved, the Secretary may institute formal proceedings to deny the State's certification.

B. Annual Planning Process

- Action Plans

The UI system is a Federal/State partnership. Although grounded in Federal law, the system is executed primarily in accordance with State laws which must adhere to Federal law.

A principal tool for Federal oversight of State UI programs is the State Employment Security Agency (SESA) Program Budget Plan (PBP) which is submitted annually by the SESA to DOL. The PBP is part of the management system of setting special program emphases, writing action plans, budgeting, reporting and evaluation. Through the PBP, SESA's describe their corrective action plans for the upcoming fiscal year, in response to performance against measures of achievement established by DOL. The measures of achievement are either desired levels of achievement (DLA's) or findings from reviews conducted by the OIG or DOL regional offices.

- Oversight Programs

The annual planning process is directly linked to ongoing and proposed UI programs, such as:

- Random Audit (RA): The Random Uaidt program, developed in 1980, is the first UI system for estimating SESA payment error rates. Designed to provide State and Federal managers with statistically valid UI payment error rates by type and cause for each participating State, the program was implemented in 46 States by 1984. Beginning in FY 1984, each State having one year's final Random Audit data was required to develop a corrective action plan addressing pertinent action the SESA would undertake to reduce its UI payment error rate. SESA plans for corrective action resulting from these audits are required in the PBP.

- Quality Control (QC): Planned as a successor to RA, the proposed Quality Control program has been designed to do four things: (1) extend Random Audit's coverage of actions and programs to become a more comprehensive vehicle for improving the efficiency and qualilty of the UI program; (2) support corrective action via more precise and detailed information on error types and causes; (3) act as the primary tool for State managers' use in designing and tracking comprehensive action plans; and (4) provide timely information on State experience.

- Cash Management: Tax accounting and cash managaement monitoring of SESA's increased after attention was focused on SESA cash flow in a GAO study published in April 1979. This study focused primarily on how efficiently States handled UI funds in terms of transfers from clearing accounts to accounts in the Unemployment Trust Fund (UTF) and withdrawing funds to pay unemployment benefits.

On October 14, 1983, UIPL 1-84 established DLA's as the means for measuring States' performance in these key areas, and formally established the cash managemenet monitoring system. A monitoring document for use by Federal staff has been developed for conducting SESA reviews. As States report cash transactions affecting their clearing accounts, benefits payment accounts, and UTF accounts on a monthly basis, the data are analyzed and published on a quarterly basis. States exhibiting deficient performance are identified, and SESA's are required to prepare corrective action plans for DLA's not met as part of their PBP submittal.

Overall, UIS monitoring and follow-up have brought gradual but steady improvement in States' cash management performance in the tax and benefit areas.

- Quality Appraisal (QA): This system, designed to provide information concerning performance and promptness, is used as a base for determining each State's quality level in program activities. The States' quality levels are compared with DLA's for each activity. Quality appraisal results are published annually. States analyze the data generated by Quality Appraisal system to identify areas in which their performance needs improvement. SESA's are required to submit corrective action plans in the PBP for DLA's not met. In addition, selected information available through the system is reviewed monthly and quarterly by UI management.

- Reviews: The SESA's are required to address in their PBP plans specific actions and planned completion dates for actions they will take during the upcoming year to resolve audits and/or other Federal review recommendations. These actions are tracked until such time as the findings are resolved.

- Benefit Payment Control (BPC): In response to findings of OIG audits and surveys conducted in 1982 of the SESA BPC and Internal Security/Risk Analysis operations, increased emphasis was placed on these areas. Upon completion of the ten State review by OIG, DOL developed revised review instruments that Federal staff used to monitor SESA performance in these program areas in the remaining 43 SESA's. These revised review instruments are designed to measure SESA performance in all program areas, with emphasis on the areas cited as deficient in the OIG audit or survey. Corrective action plans were developed to track the actions needed for improvement.

Based upon the review results, SESA's are required to develop corrective action plans to be included in the PBP, addressing deficiencies noted in the reviews. In addition, SESA's are required to include in the PBP their plans to implement automated overpayment and collection systems, and plans to improve other UI model systems.

- Workload Validation: Accuracy and consistency in reporting workload items in the UI program is essential because these items form the basis for paying States for the administrative costs of the program. The weeks claimed items is also the numerator in the Trigger rate which determines if and when a State will pay extended benefits. The workload counts are validated against Federal definitions by the States to determine the accuracy of the counts for both quantity and quality. These are audited by Federal staff to assure that such counts are accurate and consistent among States. Field Memoranda and a validation handbook are used to implement the process and provide guidance. Currently separate, the oversight of this program will become a part of the PBP process next year.

2. Audit

Audit coverage in the UI program can be divided into two broad categories: (1) normal cycle financial and compliance audits, and (2) expanded-scope audits.

A. Financial and Compliance Audits

Under the single audit concept, financial and compliance audits are the primary responsibility of the State (or local government) grantees with a limited oversight role provided to the cognizant Federal agency.

The single audit concept has been in operation since 1978 when OMB issued Attachment P to Circular A-102. This concept has been further solidified with the recent enactment of the Single Audit Act of 1984 which is effective for fiscal years beginning after December 31, 1984.

Under the single audit concept OMB, in consultation with GAO, is statutorily responsible for providing audit policies, procedures and guidelines (31 USC 7505). OMB has issued guidelines in the form of Circular A-128. With respect to audit guidance, which covers the scope of audit coverage, DOL's role is limited to promulgating regulations consistent with OMB/GAO guidance. A DOL committee is currently revising the DOL audit regulations (issued under OMB Circular A-102 P) to adhere to OMB's Circular A-128.

DOL's oversight role for audits is primarily limited to those State agencies for which OMB has assigned audit cognizancy to DOL. This oversight role involves tracking audits for timeliness and quality, and audit resolution. Tracking of timeliness and quality is handled primarily by OIG and audit resolution is a joint OIG/program office effort.

B. Expanded Scope Audits

The Office of the Inspector General has a responsibility under the Inspector General Act to pereform audits of DOL programs for the purpose of detecting fraud, waste and abuse, and improving the economy and efficiency of DOL programs. In order to achieve the greatest impact in meeting this responsibility, the OIG believes that ait is important to review UI operations from an overall, nationwide perspective. This seems especially appropriate since routine financial and compliance audits are the responsibility of the States. By using this approach, OIG can provide useful information to the Secretary of Labor and the Congress in evaluating the UI program.

OIG reviews will normally go beyond the routine financial and compliance audits of individual entities. OIG frequently refers to these audits as "expanded scope" since the scope expands beyond financial and compliance into the economy, efficiency and effectiveness of operations, including the review of program results.

OIG also has a toll-free hotline number which may be used by the public to report instances of fraud, abuse or criminal conduct. The States have been provided information concerning the hotline number, and they have been requested to transmit this information to their employees, their SDA's and other subrecipients.

COVERAGE OF THE FEDERAL MANAGERS' FINANCIAL INTEGRITY ACT

The Department does not agree with GAO's premise that its application of the Federal Managers' Financial Integrity Act of 1982 (FMFIA) may not adequately determine the vulnerability of the State fiscal control and administrative programs. Neither the Act, the Standards for Internal Control issued by the Comptroller General, nor the Internal Control Guidelines issued by OMB give any indication that Federal agencies must include an assessment of the degree to which States fulfill their obligations imposed by law and regulations in order to comply with the FMFIA. Rather, Federal agencies are to evaluate the Federal agencies' systems of internal accounting and administrative control. Additionally, both the Accounting and Audting Act of 1950 (31 USC 65(a)) and OMB Circular A-123, Revised, (paragraph 5(a)) define "agency" as any department or independent establishment in the executive branch of the government. State and local governments are not included within this definition.

DOL's position is also supported by OMB as evidenced by the following extract from an OMB document entitled, "Questions and Answers on Circular A-123 (Revised), "Internal Control Systems", issued in August 1984:

"Q. ARE AGENCIES REQUIRED TO INCLUDE RECIPIENTS OF FEDERAL ASSISTANCE IN THEIR REVIEW OF THE INTERNAL CONTROL EVALUATION, IMPROVEMENT, AND REPORTING PROCESS? IF NOT, MAY AGENCIES REQUIRE SUCH RECIPIENTS TO FOLLOW THE REQUIREMENTS OF THE ACT OR THE CIRCULAR?

A. There is no indication in the Act or its legislative history, or in the history of Circular A-123, to suggest that they are applicable to other than Federal organizations. However, agencies should maintain internal control systems that provide for oversight of recipients of Federal funds, assistance, property, etc., to assure that those assets are used for the purposes intended; that the federally assisted program or activity is carried out properly; that funds and assets are properly used by the recipients (i.e., individual contractor, grantee, State or local government, etc.); and that recipients submit, in a timely manner, all financial or other reports required under the program."

As acknowledged in the draft report, DOL took early steps, in concert with the OIG, to identify States which had systems that needed further development. DOL then implemented a major compliance review process which reviewed 20 distinct areas/functions at the

State, and in many instances at the SDA level. Subsequently, DOL has modified the Program Year 1985 compliance review process in order to improve the overall process. The major changes in the process require:

- Mandatory follow-up visits to be conducted within 90 days of the initial review to determine whether the deficiencies have been corrected;
- Four areas to receive special scrutiny (i.e., eligibility determination, financial compliance, State monitoring systems, and services to special target groups); and
- The Regional Administrators to meet with the JTPA State Liaisons at the beginning of the year to explain the proposed review schedule and the purpose of the visits, and again at the end of the year to recap all the deficiencies identified throughout the year and to discuss the status of the corrective actions that have been, or are being, taken to resolve them satisfactorily.

In addition, OIG and the program offices have had a couple of preliminary meetings to discuss the feasibility of conducting some joint reviews of the internal control systems of selected States and SDA's which have had problems in the past.

In view of the foregoing, DOL believes that it is conducting its oversight responsibilities in accordance with the JTPA, FUTA, the Social Security Act, FMFIA, and OMB Circular A-123. Furthermore, the Department does not agree that its vulnerability assesssment process is not being implemented as intended. There are some problems with the vulnerability assessment instruments with regard to their applicability to some of the assessable units within the Employment and Training Administration (i.e., the Regional Offices); nevertheless, the Department's instruments do focus on the internal control systems of the right entities -- the Federal agencies.

99th Congress
2d Session

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OFFICE OF MANAGEMENT AND BUDGET: EVOLVING ROLES AND FUTURE ISSUES

WITH

AN OVERVIEW PREPARED BY THE COMMITTEE STAFF

PREPARED FOR THE

COMMITTEE ON GOVERNMENTAL AFFAIRS
UNITED STATES SENATE

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CONTENTS

Page
Foreword III
An Overview by the Committee Staff, Robert S. Gilmour and Roger L. Sperry. VII
Letter of Submittal XVII
Budget Process: OMB's Role in the Federal Budget Process, Virginia A. McMurtry 1
Management and Organization:
  OMB's Management Role: Issues of Structure and Strategy, Peter M. Benda and Charles H. Levine 73
  Assessment of Organizational Policy and Planning, Ronald C. Moe 147
Legislative Clearance: Central Legislative Clearance, Ronald C. Moe 169
Information and Regulatory Affairs:
  Regulatory Management at OMB, Morton Rosenberg 185
  OMB and Paperwork Management, Stephanie Smith 235
  Oversight of Statistical Policy, Jeanne E. Griffith 245
Procurement: OMB and Procurement Management, Stephanie Smith 257
Financial Management: OMB and Financial Management, Virginia S. McMurtry 269
Other Functions:
  Workforce Management at OMB: Issues of Functional Assignment and Institutionalization, Peter M. Benda and Charles H. Levine 305
  The Office of Management and Budget and Intergovernmental Management, Sandra S. Osbourn 335
Appendices:
  Office of Management and Budget: A Selected Annotated Bibliography, George H. Walser 359
  Preliminary Catalogue of Office of Management and Budget Authorities and Directives, Morton Rosenberg and Mark Gurevitz 395

OMB: EVOLVING ROLES AND FUTURE ISSUES.

AN OVERVIEW BY THE COMMITTEE STAFF

Robert S. Gilmour* and Roger L. Sperry**

The Office of Management and Budget is unquestionably the preeminent central management agency of the Federal Government. It is the focus of attention in the executive budget process and the President's overseer of agency legislative and regulatory initiatives. It is also a major policymaker for a host of managerial and administrative processes including organizational and workforce management, financial systems, procurement, information management, and intergovernmental relations. With the centralization of such functions, OMB has become vulnerable to charges that it has at once overstepped its proper authority, yet underachieved presidential and congressional goals for its high performance. In the deficit-reduction era, attention is riveted to the budgetary process and budgetary control. Yet the need for improved effectiveness of the Government's managerial systems is now more critical than ever.

Budgetary and managerial demands of the 1980s are worlds away from those of 65 years ago when the Government's budget office was first established. The total Federal budget—as well as the national debt—was measured in millions, not in billions and trillions. "Balanced budgets" were not only popular but practicable. Early 20th century efforts to reorganize the government—even in the cause of "economy and efficiency"—were thought unnecessary and defeated.

Before the 1920s, individual agency spending requests were sent directly to Congress without any form of central review. Not until passage of the Budget and Accounting Act of 1921 was the review of spending estimates centralized in a small Treasury agency—the Bureau of the Budget. Before that decade was out, BoB had already become a financial power to be reckoned with. It had also begun to lay the groundwork for the clearance of agency legislative proposals to match its clearance of spending requests.

The enormous expansion of government during the New Deal era dramatically increased the value of staff in organizational and managerial roles. Widespread understanding of this potential was markedly increased by the landmark report of the President's Committee on Administrative Management (the Brownlow Committee) of 1937. The Committee's plea that "the President needs help" was answered two years later by passage of the Executive Reorganization Act making BoB the central institutional component of the newly created Executive Office of the President. In addition to be-

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*Professional Staff Member, Committee on Governmental Affairs.
**Senior GAO Consultant, Committee on Governmental Affairs.

coming, in fact, "the fiscal arm of the President," BoB also became the President's primary agent for proposing and superintending matters of government organization and managerial reform.

Corresponding efforts were also made to use BoB resources as the means for more effective—and centralized—financial management. Regulations prescribing uniform agency financial reporting were mandated by executive order in 1940. This effort was abandoned during World War II, however, and was not revived until the current decade. BoB did participate in a joint financial management improvement effort with the General Accounting Office and Treasury Department in the late 1940s and early 1950s, but the Bureau's enthusiasm was short lived.

During the post-War years, BoB assumed still additional managerial roles. With respect to workforce management, as Peter Benda and Charles Levine point out in this volume, "All Presidents since World War II have favored constraints on the overall level of Federal civilian employment and looked to BoB/OMB to play the lead role in monitoring and enforcing limitations on staffing levels throughout the Executive Branch." BoB's role in intergovernmental management, similarly implicit in the budget function, was made explicit as federal grant-in-aid programs for states and municipalities mushroomed in the 1950s and 1960s.

In 1970, BoB became the Office of Management and Budget—OMB—with the stated goal that management and budget functions be given co-equal status. Since that 1970 reorganization, there have been substantial changes in OMB's roles and resonsibilities. In 1974, following the report of the Commission on Government Procurement and increasing congressional dissatisfaction with the proliferation of federal procurement rules, the Office of Federal Procurement Policy was established within OMB and charged with the development of overall procurement policy. Similar congressional concern with the multiplication of Federal information and paperwork requirements led to OMB responsibilities in that area and, in part, to a major new role in the regulatory process.

During the 1970s, a series of presidential directives increased OMB involvement in the review of agency regulations. These executive orders followed an explosive growth in the number and scope of rules—laws, by force and effect—made by administrative process, not by Congress. In response to a wide array of congressional mandates for the promulgation of agency-made laws governing health, safety, environmental, educational, and other concerns—the "new social regulation"—the volume of agency rules quickly began to exceed the statutory output of Congress. OMB became the logical presidential choice for new clearance responsibilities.

During this period, increasing public information demands—data to be supplied, forms filled in, and applications completed—were imposed by these same regulations and also by other agency policies and guidelines. This suggested the need for a paperwork clearinghouse. The Paperwork Reduction Act of 1980 addressed these concerns, plus the need for statistical policy oversight, by creating the Office of Information and Regulatory Affairs (OIRA) as a special unit within OMB. Subsequently, executive orders commissioned OIRA as the paramount agency for central regulatory clearance.

IX

In light of the increased scope and complexity of government, there is no question that the Government now needs strong central budget and management capacities. OMB now shares responsibility for budgetmaking with many other actors. And, paradoxically, OMB's recent effectiveness in advancing the Presient's political agenda through the budget process may have diminished its influence on final budgetary outcomes. Congress has come to understand OMB as the agent of a point of view, not as a source of "neutral competence." Accordingly, in congressional offices, the President's budgets of the past two years have been widely termed, "dead on arrival"—even before they were persented. Increasing credibility—and deference—has been given the Congressional Budget Office as having "the best numbers in town." In addition, the General Accounting Office has been awarded major new roles in the budgetary process by the Balanced Budget and Emergency Deficit Control Act of 1985, the Gramm-Rudman-Hollings law.

There is also a widespread view that the "M" side of OMB has fallen far short of the expectations held at the time of the budet office reorganization in 1970. Notwithstanding the Reagan Administration's management initiatives, such as Reform '88, diverse study groups have concluded that deficiencies in the Government's central management capability have yet to be remedied. This is evident, and particularly acute, in diminished departmental and agency capacities to plan and manage their affairs.

The Congressional Research Service studies presented in this volume represent the most thorough and comprehensive scholarly effort yet undertaken to trace the evolution of OMB's various roles and to assess the institutional effectiveness of this key arm of the presidency. The first three studies are capstone treatments of OMB's primary responsibilities—for development of the executive budget and for the supervision of federal management systems and organization. The eight studies that follow examine the introduction and development of additional clearance and management functions under OMB's purview—central legislative and regulatory clearance; paperwork and statistical policy management; procurement; financial management; workforce management; and intergovernmental relations. CRS staff have also prepared an extensive annotated bibliography, a comprehensive compilation of legal authorities, and an index of legal authorities and directives as appendices to the studies presented here.

Any "overview" of OMB's contemporary responsibilities inescapably directs attention to that Office's fundamental contributions to the budgetary process and to the general oversight of Federal management. Of OMB's expanded roles in central clearance and management, two—regulatory clearance and financial management—are ones of repeated and critical concern to the public and Congress. These two cirtical roles draw our attention here as well.

FEDERAL BUDGET PROCESS

Budgeting has become the dominant policymaking process for both Congress and the executive. Both branches have expanded their capacities to make informed budgetary decisions. Preparing the President's budget, following its progress through Congress, and overseeing its execution continue to be OMB's primary responsibilities if not its all-consuming tasks. Once a largely ministerial chore performed by career bureaucrats, budgeting at OMB has become a policy-setting and sometimes partisan political process carried out increasingly by presidential appointees.

Decisions on program funding are now made and directed from the top down, wholly reversing the traditional pattern where estimates "welled up" from the lowest reaches of the agencies. As Virginia McMurtry observes in this volume, this change in direction was the result not only of "Director [David] Stockman's preference for a top-down style of decision-making" and his "encyclopedic knowledge" but also of a more general recognition that budget cutting requires centralized decisionmaking if the Government's programs are to be weighed on the same scale.

Sophisticated information systems now give the budget director and his staff the capability to formulate detailed program funding proposals within overall guidance established by the President and his principal assistants. Staff resources, such as the Legislative Strategy and Support Group and an expanded bill-tracking staff, enable the director to negotiate with Capitol Hill, often without the need for agency participation.

Since enactment of the Congressional Budget and Impoundment Control Act of 1974, OMB has become much more involved in congressional budget deliberations in addition to its executive budget functions. At the same time, Congress has not only developed its capacity to make marco-level budget decisions through creation of the Congressional Budget Office, it has also enhanced its operational abilities with the development of substantial professional staffs for both House and Senate Budget Committees.

In addition, with adoption of the Balanced Budget and Emergency Deficit Control Act of 1985, Congress has also tapped the considerable resources of the General Accounting Office for deployment to the budget process, though the Comptroller General's precise role in this process has been called into question as a matter of constitutional law.

Changes in the budget reconciliation process, starting in 1980, permitted OMB's participation in formulating the congressional budget to an even greater extent since major changes were to be made not only in funding levels but also in program authorization statutes. The omnibus character of reconciliation bills, formatted under the pressure of external time constraints, adds great leverage for OMB's broad gage approach. The 1981 reconciliation bill, in particular, demonstrated the saliency and applied power of OMB to effect major policy changes and much reduced Federal funding for targeted programs. With the substantial growth in budget deficits during the 1982–85 period, however, OMB became markedly less effective in achieving the President's budgetary goals. Indeed, the protracted legislative-executive stalemate over budget policy since 1981 became a major factor prompting Congress to adopt the strict, self-enforcing mechanisms of the Balanced Budget and Emergency Deficit Control Act of 1985.

Whatever the final outcome regarding the Comptroller General's participation in the deficit reduction process, congressionally mandated budgetary ceilings for 1986 through 1991 almost certainly require OMB to exercise tighter control of agency funding and thus the exertion of even greater influence on policymaking in the executive branch. Conversely, OMB will be sharing responsibility with CBO and others for projecting future deficits and otherwise assisting the Congress in meeting deficit reduction targets.

Any assessment of the workability of the new budget process is at this point premature. That the problem of bringing the Federal deficit under control will face Congress and the President for many years, however, may be predicted with confidence. In the continuing tension over budget practices, OMB's role vis-a-vis the other actors in the budget process will surely continue to evolve. Congress will need to assure that OMB has the necessary tools to provide the President the support he needs to develop and execute the budget and to furnish Congress the information and support needed to arrive at its own budget calculations and decisions.

MANAGEMENT IMPROVEMENT

Congress anticipated that BoB/OMB would play a strong role in overseeing and improving the management of government beginning with the 1921 statutory charter. Benda and Levine, in their paper on OMB's management role, define this management function in the following terms:

> To provide leadership on the President's behalf in addressing general problems bearing on the organization and effectiveness of the executive branch, and to assist in the design and implementation of government-wide strategies aimed at enhancing the ability of Federal agencies to carry out their statutory missions.

Generally, OMB's management efforts, whether done in the name of economy and efficiency or enhancing Federal program effectiveness, have taken a back seat to budget functions and have, most of the time, fallen short of expectations. Management improvement activities have depended as much on the preferences of individual Presidents or OMB leadership as they have on any coherent, continuous concept of government management. Consequently, efforts to strengthen the management side of OMB proved to have only limited or temporary effect.

The most visible and structured effort to upgrade this management function occured in 1970 when BoB was reorganized and rechristened "OMB" to emphasize the co-equal status of "management". An ambitious agenda of management activities was established, including a leadership role in program evaluation and coordination; improvement of executive branch organization, information, and management systems; and development of executive talent. But by 1973, many management functions had been transferred to the General Services Administration and most of the remaining management staff had been merged into the budget divisions. Soon thereafter, "management by objectives," the primary management initiative of OMB's early years, was abandoned.

A 1977 reorganization plan re-established co-equal budget and management units in OMB, but primary emphasis was given to government reorganization and agency consolidation through the

President's Reorganization Project. Congress eventually approved ten reorganization plans submitted during the Carter administration, but these brought about only limited changes, falling well below the administration's well announced goals.

The Reagan Administration's attention to management issues has largely been driven by the budget process and a will to reform spending priorities, improve administrative efficiency, and reduce costs. Tied as they are to the budget process, OMB's recently instituted management reviews and automated progress reporting system give that office a more systematic means for influencing agency behavior on management issues. Aggressive use of these tools has made possible specific OMB guidance and direction on a broad range of management initiatives. Yet this particular form of OMB involvement—in the details of agency operations—comes at a time when senior Federal managers and organizations such as the National Academy of Public Administration, are pointing to the mismatch between managers' authority and responsibility, and to lack of accountability and overregulation as impediments to government performance.

In 1982, the President appointed the President's Private Sector Survey on Cost Control—the Grace Commission—with a broad charter to find ways to cut costs and improve management. This Commission operated relatively independently from OMB, although the Office has since been assigned a follow-up role on the Commission's recommendations. Later that same year, the Administration launched Reform '88, the President's Management Improvement Program, as a high-visibility, broad-scale set of initiatives spearheaded by OMB. The inadequacy of OMB's management resources and staff appear to be an impediment to full implementation of this Program, nonetheless. In addition, many such initiatives require new investments in agency systems and processes, but stringent Gramm-Rudman-Hollings budget reduction targets make such investments seem improbable.

In spite of these difficulties, the administration's management reforms do appear to be making significant gains in paperwork reduction, in lowering periodical and publication costs, and in modernization of administrative support systems. The General Accounting Office reports additional improvements in cash and credit management and debt collection. Furthermore, the Inspectors General have become a more visible, somewhat more unified force in the fraud-waste-and-abuse campaign. The unrealistically high initial expectations for Reform '88 have given way to more practical approaches to specific problems.

The OMB management staff and cognizant White House officials are aware of OMB's past record. They have been trying to improve on it by taking the longer view, forging a closer link to the budget process through the management reviews, establishing sophisticated tracking systems, and by having agency officials become more involved through mechanisms such as the President's Council on Management Improvement.

The greatest obstacle to further management improvements, in addition to OMB's preoccupation with the budget and the commitment of limited resources to management issues generally, is a persistent confusion between management and control. The thrust of

OMB's managerial improvement effort has consistently been made in terms of cost cutting and administrative efficiency to the near exclusion of capacity-building and program effectiveness. The development of managerial resources at the agency level through the annual review process has, often as not, been overtaken by OMB's urge to micro-manage agency initiatives. Little attention has been accorded human resource management, for example, except in the context of agency cutbacks and reductions in force. So long as OMB's predominant motivation is to achieve "scorable savings" in the budget process, however, it seems likely that the exercise of central administrative controls—regulations, directives, and reporting requirements—will be far more compelling than the development of managerial capacity.

REGULATORY CLEARANCE

The Reagan Administration's designation of OMB's Office of Information and Regulatory Affairs (OIRA) as its central clearance arm for regulatory policy capitalized on a national mandate for regulatory relief and set in motion—administratively—the most sweeping reform of the regulatory process in 35 years.

Where administrative rulemaking had been almost exclusively the domain of individual agencies and independent regulatory commissions, now promulgation of administrative regulations would be subjected to OMB scrutiny for conformity with the President's program. In addition, under the commands of Executive Order 12,291 of 1981, all new rules, including reexaminations of any existing rules, are to be reviewed with regard to available alternatives and for consistency with other regulations. "Major rules"—having an economic impact of over $100 million—will be subjected to analysis for cost-benefit effectiveness.

As guided by the most recent presidential directive on the subject, Executive Order 12,498 of 1985, OMB involvement in administrative rulemaking now precedes agency notice of its intentions on specific rules to Congress and the public. Each agency must develop a "Regulatory Program" identifying "all significant regulatory actions. . . . planned or underway, including . . . the development of documents that may influence, anticipate, or could lead to the commencement of rulemaking proceedings."

Once a proposed regulation has actually been announced by an agency and opened to public comment, OMB has additional, off-the-record opportunities to influence the decisionmaking process. Opportunities for OMB to influence the content of agency rules is also structured into the process after the public comment period has been closed. As Morton Rosenberg concludes in his study of regulatory management in this volume:

> Taken together, Executive Orders 12,291 and 12,498 provide the President, through OMB, with a formidable mechanism to significantly influence, if not effectively control, regulatory decisionmaking of covered agencies at all stages of the rule formulation and development process.

Ironically, the enabling legislation for OIRA—the Paperwork Reduction Act of 1980—provided no specific authority for the imple-

mentation of regulatory reform. The Act did direct specific approaches to improvements and cost reductions in the collection, management, and dissemination of information, and it is here that OMB has repeatedly been criticized for failing to fulfill its legislative mandate.

No one doubts that Congress has the power to confirm, redirect, or even abolish central regulatory clearance, but so far in this decade, the two serious efforts to establish this process in law have failed. In the absence of legislation, the regulatory clearance process is defined by presidential proclamation.

FINANCIAL MANAGEMENT

In recent years, the concept of financial management has been broadened substantially. No longer are financial managers concerned merely with financial transactions, the legality of expenditures, and balancing the books. OMB now defines "financial management system" as "the sum of all systems—both manual and automated—that are used to collect, classify, analyze, and report data on financial transactions and resources, and generate financial information in support of the agency's mission." In a 1985 report, the Comptroller General took this definition one step farther, holding that financial management encompasses "all or part of the processes and functions of planning and programming, budgeting, budget execution and accounting, and audit and evaluation."

In keeping with the expanded understanding of financial management, OMB's role in this field has evolved from one that was primarily concerned with systems supporting the budget process to a wide-angle focus on agency financial systems and information availability to top executive branch managers. Virginia McMurtry's review of this subject notes further that, "financial management issues recently have gained greater visibility and likely have gained a higher priority than some of the other functions performed by OMB."

Over the past two presidential administrations, OMB initiatives in cash and credit management, debt collection, internal control reviews, and strengthened Inspector General functions have all yielded promising results. OMB's financial management unit has been moved from the budget to the management side, bringing it more in line with the broader financial management concept and other government-wide management initiatives. In December 1984, OMB issued a new circular establishing policies and procedures for agency financial management systems, which was followed three months later by an OMB manual on financial management and accounting objectives. Agencies were further directed to prepare five-year financial system plans.

In the past several years, Congress has also devoted greater attention to financial management, enacting a series of statutes—all giving OMB a major role. These included the Federal Managers' Financial Integrity Act, the Debt Collection Act, the Prompt Payment Act, and the Single Audit Act.

Serious difficulties resulting from the historic decentralization and fragmented growth of financial management systems remain despite progress made during the recent past. In its Fiscal Year

1987 management report, OMB confirmed that a number of departments and agencies could not provide reasonable assurance that their internal control systems conformed with the requirements of the Financial Integrity Act. In addition, numerous agency accounting systems did not conform to appropriate accounting principles and standards, including those in 81 of 146 such systems in the Department of Defense.

The Comptroller General, the Grace Commission, the Association of Government Accountants, and Price Waterhouse have all expressed concern about what they regard as serious weaknesses in Federal agency financial systems: inadequate internal control and accounting systems that expose Government programs to fraud, waste, and abuse; and insufficient leadership at the central agency level to bring about the fundamental financial system reforms needed for a trillion-dollar government operation. Studies by these organizations all conclude that fundamental reforms, including institutional changes, will be required if the Government's financial management problems are to be remedied. No consensus has emerged on the exact dimensions of such reforms, but there is a growing consensus that existing financial systems contain basic flaws that demand urgent attention.

The time may have arrived for the Congress to consider a number of current proposals to upgrade central financial leadership, either in OMB or elsewhere. Additional legislation may also be needed to bring about agency financial system improvements, a goal established by the Accounting and Auditing Act of 1950, but still unrealized after more than 35 years.

CONCLUDING OBSERVATIONS

While OMB's role in the budget process is still evolving, there does not appear to be a strong movement in Congress or elsewhere to make basic changes in the Office's charter on budgetary matters. The same cannot be said for the management side of OMB. Shortcomings in OMB's management reform efforts over the years have led to numerous institutional reform proposals. Organizations such as GAO, the National Academy of Public Administration and the Grace Commission have all concluded that the record warrants a serious search for alternatives.

Finding a workable solution to the problem of providing sufficient but not overbearing central direction and control of Federal management is a complicated undertaking. Benda and Levine list five prominent structural alternatives which are summarized below:

1. Upgrading the M-side of OMB;
2. Combining M-side functions with the Office of Personnel Management in a new Office of Management;
3. Creating an Office of Federal Management encompassing OMB's budget and management functions;
4. Separating the management from the budget functions in an Office of Federal Management; or
5. Creating an Office of Federal Management containing the M-side functions, plus OPM and GSA policy functions. (The re-

maining OPM and GSA activities would be combined in an Office of Operations.)

Taken as a whole, such proposals indicate a growing disenchantment in some circles with the present structure. While organizational structure is by no means the only determinant of administrative performance, it is well known to be vitally important. Taken in conjunction with desired changes in managerial systems design, an effective structure for central managerial oversight will be critical to the success of any reform or upgrading effort. Whatever the future organization of OMB, major budget reductions will necessitate lean, modern, and effective Federal management processes operating at highest capacity and lowest possible cost.

Federal Government Information Technology:

Management, Security, and Congressional Oversight

CONGRESS OF THE UNITED STATES
Office of Technology Assessment
Washington, D.C. 20510

Foreword

The primary focus of this report is on the management, use, and congressional oversight of information technology in the Federal Government. Rapid advances in technology—such as microcomputers, computer networking, computer modeling, videoconferencing, and electronic information exchange—are generating many new applications, opportunities, and issues that warrant congressional attention.

The report addresses five major areas: 1) management of information technology, including strategic planning, innovation, procurement, and the information resources management (IRM) concept; 2) information systems security and computer crime; 3) information technology and decision support; 4) management of government information dissemination; and 5) opportunities for using information technology in conducting congressional oversight.

Prepared at the request of the Senate Committee on Governmental Affairs and the House Committee on the Judiciary, Subcommittee on Courts, Civil Liberties, and the Administration of Justice, this report is the second component of the OTA assessment of "Federal Government Information Technology: Congressional Oversight and Civil Liberties." The first component, *Electronic Surveillance and Civil Liberties*, was published in October 1985. The third component, *Electronic Record Systems and Individual Privacy*, is forthcoming in 1986.

In preparing this report, OTA has drawn on working papers developed by OTA staff and contractors, the comments of participants at four OTA workshops on these topics, and the results of an OTA survey sent to over 140 agency units. Drafts of this report were reviewed by the OTA project advisory panel, officials from the U.S. Office of Management and Budget, General Services Administration, and National Bureau of Standards; the U.S. Departments of Agriculture, Commerce, Defense (including the National Security Agency), Education, Interior, State, and Transportation; the Federal Bureau of Investigation (Justice), Federal Emergency Management Agency, National Archives and Records Administration, Nuclear Regulatory Commission, and Veterans Administration; and a broad spectrum of interested individuals from other Federal agencies, the research community, and private industry.

OTA appreciates the participation of the advisory panelists, workshop participants, Federal agency officials who responded to OTA's survey and/or provided review comments, and others who helped bring this report to fruition. The report itself, however, is solely the responsibility of OTA, not of those who so ably advised and assisted us in its preparation.

Chapter 1

Summary

INTRODUCTION

Information technology—including computers, software, telecommunications, and the like—is critically important to the functioning of the U.S. Government. By any measure, the Federal Government—with its roughly 27,000 mainframe computers, over 100,000 microcomputers, and over 170,000 mainframe computer terminals[1]—has the largest inventory of computer equipment of any single organization or government in the world.

However, much of the policy framework previously established by Congress to control, oversee, and encourage the management and use of Federal information technology has been overtaken by the rapid pace at which new technology applications, issues, and opportunities are being generated.

In addition, the Federal Government is not maximizing the return on its substantial information technology investment (conservatively estimated at $60 billion over fiscal years 1982-86[2]) with respect to improving: 1) the efficiency of government in delivering services; 2) the security and privacy of information maintained in computerized systems; and 3) the quality of government management itself. Also, the congressional intent as originally embodied in laws such as the Paperwork Reduction Act, Freedom of Information Act, Privacy Act, Public Printing Act, and Omnibus Crime Control Act is not being fully carried out due in part to new technological applications and issues not envisioned at the time of enactment.

MANAGEMENT OF INFORMATION TECHNOLOGY

The management of Federal Government information technology has received high-level congressional and executive branch attention for at least two decades, with a new round of studies, reports, and policy initiatives every several years. Management issues involving planning, procurement, security, and the like must be revisited periodically because of the dynamic nature of the technology and changing applications.

Major studies from the Commission on Federal Paperwork in 1977 through the Grace Commission in 1983 reported on needed improvements in Federal information technology management. In the last few years, the Office of Management and Budget (OMB), General Services Administration (GSA), and various individual agencies have taken numerous management initiatives. And most recently, OMB has given attention to information technology management both as part of overall government management and through specific actions such as the December 1985 circular on "Management of Federal Information Resources."[3]

Nonetheless, OTA identified several further needs for management improvement that appear to be crucial to realizing the full potential of information technology for increasing the efficiency and effectiveness of government. These are discussed briefly below. Many of these needs could be met by the executive branch acting alone. However, Congress can facilitate, encourage, and, where necessary, require these actions.

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[1] Unless otherwise noted, statistics cited in this chapter are based on the OTA Federal Agency Data Request that was sent to the 13 cabinet departments and 20 selected independent agencies, and to which 142 agency components responded. See app. B for a list.

[2] Based on Office of Management and Budget (OMB) data. Does not include some telecommunication costs or information technology activities that are classified or embedded in other agency programs.

[3] See Office of Management and Budget, *Management of the United States Government Fiscal Year 1986*, and OMB, Circular A-130 on "Management of Federal Information Resources," issued Dec. 12, 1985. Also see OMB, *Management of the United States Government Fiscal Year 1987*.

Strategic Planning

The annual "5-year plans" currently published by OMB (as mandated by the Paperwork Reduction Act) have several significant deficiencies. While the documents are gradually becoming more comprehensive, they are not "plans," and they do not analyze strategies for using information technology to further government missions, either on a governmentwide or individual agency basis. There is no real vision of the future and little discussion of alternative strategies for use and management of information technology.

Despite some more recent efforts to develop thoughtful plans, many agency planning efforts still have some major flaws, including a failure to:

- include strategic as well as operational plans;
- identify innovative opportunities for use of information technology;
- connect planning effectively to implementation;
- involve users, clients, and the interested public in the planning process; and
- explicitly consider the implications of information technology use for protection of information security and privacy.

One vehicle available to Congress for implementing improvements in planning (and other areas) is the Paperwork Reduction Act of 1980, which in part established an information technology management framework for the government. The act is overdue for reauthorization and could be amended to provide a more precise mandate on the strategic planning process and the contents of the 5-year plans.

Information Availability and Data Quality

The weaknesses of the 5-year plans are compounded by serious deficiencies in the scope and quality of information available to Congress, and to the agencies themselves, on key Federal information technology trends and applications. These deficiencies can hamper effective congressional oversight and agency decisionmaking. For this study, in the absence of much needed information, OTA conducted its own survey of Federal agency use of information technology (see app. B for discussion of OTA's Federal Agency Data Request).

A related problem is that the results of General Accounting Office (GAO) audits, computer matches of various Federal record systems, and a variety of other internal and external audits and studies indicate that the quality (completeness and accuracy) of data and records in Federal computerized systems varies widely—from quite good to very poor.[4] Agency (and congressional) decisions based on inaccurate and incomplete information can lead to wasteful or even harmful results or to missed opportunities and failure to identify key problems.

OTA found that there is a need: 1) to specify the types of information that should be reported on a periodic or continuous basis in order to assist both congressional and central agency oversight of Federal information technology, and 2) to strengthen the data quality standards and procedures applicable to computerized Federal systems.

Innovation

Where OTA identified examples of agency innovation—such as the use of electronic mail, videoconferencing, and computer-based decision support—the exchange of this experience and learning with other agencies appeared to be irregular or nonexistent. A common institutional problem is that many agencies either believe that publicizing innovation is "just asking for trouble" or view many innovations as too risky to try at all.

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[4] For further discussion of Federal record quality, see U.S. Congress, Office of Technology Assessment, *Federal Government Information Technology: Electronic Record Systems and Individual Privacy*, 1986 forthcoming.

OTA concluded that actions to encourage agency innovation are needed, such as: establishing informal and formal mechanisms to exchange experiences gained and lessons learned; developing guidelines that provide agencies with room to innovate, but also help detect and resolve emerging issues before they impair the innovation process; and possibly designating a Federal information technology innovation center (or centers).

Procurement

Government information technology procurement is subject to multiple and sometimes conflicting efforts to simultaneously expedite the procurement process (e.g., through GSA's delegation of procurement authority), increase the level of competition (e.g., through congressional enactment of the Competition in Contracting Act), and more clearly demonstrate a significant return on investment in information technology (as now required by OMB).

OTA concluded that it is too early to fully assess the overall impact of these procurement initiatives. However, there is considerable evidence of reduced technological obsolescence over the last 10 years. For example, Federal agencies responding to the OTA survey reported, collectively, a reduction in percentage of Federal mainframe computers over 6 years old from about 60 percent in 1975 to 10 percent in 1984; and an increase in mainframe computers under 3 years old from 30 percent in 1975 to 60 percent in 1984.

Beyond the availability of relatively new equipment, the "success" of procurement is closely tied to the government's ability to plan and define technology needs and to match technology to those needs. It is in this area particularly that problems persist, especially with the larger systems, such as at the Internal Revenue Service and Social Security Administration.[5] There still appears to be a need for: better training of procurement staff, greater senior management involvement in and understanding of the planning and procurement process, improved mechanisms to exchange procurement experience and learning, and possibly a procurement and management troubleshooting team to assist with serious trouble spots.

Information Resources Management (IRM)

In enacting the Paperwork Reduction Act (PRA), Congress directed that each agency designate a high-level official responsible for all aspects of the management of information technology. The information resources management (IRM) concept was intended to bring together previously disparate functions—such as computers, telecommunications, office automation, and the like—and to establish the importance of information as a resource.

OTA found that, while agencies have designated an IRM officer, actual implementation of IRM varies widely and has been only partially or minimally implemented in many agencies. And the Paperwork Reduction Act provides limited or no direct guidance in some key areas such as: the use of information technology to support agency decisionmaking (e.g., computer-based decision support), and public information technology and policy (e.g., electronic databases and electronic dissemination of government information). OTA concluded that there is a need to review progress in PRA implementation since 1980 and clarify the scope of authority and responsibilities intended for IRM officers.

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[5] OTA is conducting a separate in-depth case study entitled *Federal Government Information Technology: Case Study of the Social Security Administration*, forthcoming in summer/fall 1986.

INFORMATION SYSTEMS SECURITY AND COMPUTER CRIME

Information Systems Security[6]

An important management responsibility is maintaining the security of information systems. If proper security is not maintained, the government cannot assure: 1) the continuity and effectiveness of government operations; 2) the quality (e.g., accuracy and completeness) of information in Federal systems; or 3) control over those types of information (e.g., personal, proprietary, classified) to which access is limited by law or regulation.

The proliferation of microcomputers, continuing rapid increase in mainframe computer systems, large percentage of computerized Federal records (e.g., about 80 percent of Privacy Act records are maintained in fully or partially computerized systems), and growing use of electronic data linkages of all sorts, clearly have increased the difficulty and complexity of protecting government information. Information systems security is now recognized as a serious problem by both civilian and military agencies; the President emphasized information systems security in the September 1984 National Security Decision Directive (NSDD) 145, as has OMB in its December 1985 information management circular.

There is, indeed, cause for concern. OTA found that agencies are often not implementing the measures mandated or suggested under prior policy guidance. For systems that process sensitive but unclassified information, OTA found that:

- about 40 percent of agencies responding have not conducted a risk analysis during the last 5 years, 25 percent do not screen personnel with computer access, and 50 percent do not screen computer applications for sensitivity;
- in addition, about 40 percent of agencies do not use audit software or restrictions on dial-up (remote) access to mainframe computers, and about 80 percent do not use encryption; and
- finally, about 75 percent of agencies responding do not have an explicit security policy for microcomputers, and about 60 percent do not have (and are not developing) contingency plans for use if mainframe computers are disrupted.

The Administration's approach, through NSDD 145, has been to assign a much stronger role to the military and to the National Security Agency (NSA) in particular. While this may well strengthen Federal leadership in information systems security, it also puts the national security community in an unusual, influential if not controlling position on this key aspect of information policy, and could heighten tension between the defense and civilian sectors.

OTA identified several options on information systems security that warrant consideration, including:

- designating a civilian agency to provide information security training and technical support to the civilian sector (similar to NSA's role in the defense sector);
- changing budget procedures to provide more visibility for computer and telecommunications security in agency budget requests (i.e., a security line item); and
- codifying part or all of NSDD 145 into law, clarifying the roles of NSA and civilian agencies so as to remove the possibility that national security agencies might have undue control over civilian agency functions.

Some of these options are reflected, at least in part, in H.R. 2788, the "Computer Security Research and Training Act of 1985," as amended.

Computer Crime

One purpose of good security is, of course, to protect against criminal activity directed towards computer systems and the information they contain. Technical and administrative measures are important parts of good security. But, in addition, criminal laws on computer abuse can provide another disincentive for potential violators and facilitate prosecution when crimes occur.

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[6] For further discussion of technical security options, see the OTA study on *New Communications Technology: Implications for Privacy and Security* is expected to be completed in winter 1986-87.

Since the 1970s, there has been a growing consensus that existing criminal laws covering the variety of crimes that can be committed with a computer (e.g., fraud, theft, embezzlement, invasion of privacy, trespass) either do not cover some computer abuses, or are not strong and clear enough to discourage computer crimes and allow expeditious prosecution. The available evidence suggests that significant losses have occurred. However, the total volume and severity of computer crime is unknown, given a scarcity of reliable information. Nonetheless, the potential (if not current) problem is thought to be so serious that 45 States and, in 1984, the Federal Government, have enacted computer crime laws.

Congress could fine-tune this Federal law (Computer Fraud and Abuse Act of 1984), giving particular attention to the following areas, among others: extending the coverage to private sector computers operating in interstate commerce (currently only Federal computers and those operated by certain financial institutions are covered); refining any overly broad language (e.g., with respect to unintentionally restricting computerized dissemination of or access to public information); and establishing a mandatory computer crime reporting system for Federal agencies (OTA found that only about one-fifth of agencies have a computer crime tracking system or procedures).

OTA found that because many Federal (as well as private) computer systems have computers located in more than one State and/or use data communication networks that routinely cross State lines. State jurisdiction can be hard to establish, given the dynamic nature of computer/communications linkages. On this basis, OTA concluded that some form of interstate Federal computer crime law is warranted.

In general, OTA concluded that effective computer crime legislation needs to balance concerns about the potentially serious nature of such crime with other factors, such as:

- the responsibilities of vendors, owners, and users for the security of their systems;
- the need for effective administrative and technical security measures;
- the need to balance Federal and State roles in the prosecution of computer crime;
- consistency with other aspects of Federal information policy (e.g., Privacy Act, Freedom of Information Act, Omnibus Crime Control Act); and
- consistency with State computer crime laws.

Several of these and other factors are reflected in legislation under active congressional consideration, including: H.R. 1001, "Counterfeit Access Device and Computer Fraud and Abuse Act of 1985"; H.R. 930, "National Computer Systems Protection Act of 1985"; S. 440, "Computer Systems Protection Act of 1985"; S. 610, amendment to Computer Fraud and Abuse Act; and S. 1678 (and H.R. 3381), "Federal Computer Systems Protection Act of 1985."

INFORMATION TECHNOLOGY AND DECISION SUPPORT

One of the less visible but important applications of information technology is to support decisionmaking. In the context of the Federal Government, this could include decisions about governmentwide or agency-specific policies, plans, priorities, budgets, and/or program implementation options. The range of possible applications includes, for example: the use of simple spreadsheet software on microcomputers to help analyze budget options; the running of complex simulation models to better understand the possible impacts of alternative program strategies; the collection and synthesis of information from several electronic databases relevant to the decision at hand; the use of computer graphics to analyze and display key trend and foresight information; and participation in decision conferences where decisionmakers (and staff) use computer and analytical tools to help work through a decision problem.

At the outset of this study, OTA found little systematic information on the use of computer-based decision support in the Federal Government. Computer modeling and electronic databases are not included within the purview of senior IRM officials as their responsibilities are commonly defined. Nor does the language or legislative history of the Paperwork Reduction Act provide guidance as to whether these information technology applications were intended to be included within IRM.

The results of OTA's Federal Agency Data Request provide a profile of the extent and use of these techniques. For example:

- about 60 percent of Federal agency units report at least some use of computer modeling, frequently for decision support (but also for research and scientific purposes), with the number of applications ranging up to 2,000 per agency component; and
- use of computer-based decision analytic techniques appears to have increased dramatically since the advent of microcomputers:
  - —about 90 percent of Federal agency units report use of spreadsheet software;
  - —about half use quantitative decision techniques (e.g., linear programming, systems analysis, critical path analysis);
  - —about one-fourth use forecasting techniques (e.g., regression analysis) and quantitative decision analytic techniques; and
  - —about one-twentieth use computer-assisted decision conferences and/or computer conferencing.

Overall, executive branch officials believe these techniques to be very useful, even essential, to agency decisionmaking. However, few can document this claim other than by citing ad hoc examples, because there has been little research on the impact of decision support techniques on agency decisionmaking and little effort to exchange experience among agencies using these techniques.

OTA identified several possible actions that could help to: 1) improve sharing of expertise and learning about computer-based decison support; 2) facilitate congressional and public access where appropriate; 3) enhance understanding of the strengths and limitations, uses and abuses of computer modeling and electronic databases; and 4) improve the government's return on a significant investment. Possible actions that warrant consideration include:

- establishing guidelines or standards for model documentation, verification, and validation (at least for major models);
- establishing directories or indices to major computer models and electronic databases;
- clarifying procedures on congressional and public access to agency computer models and databases;
- conducting further research on the impact of computer-based decision support on agency decisionmaking;
- conducting further testing and development of the decision conference technique;
- developing a formalized foresight capability in major agencies; and
- establishing clear institutional responsibility for some or all of the above, possibly by including decision support as part of information resources management.

A significant, unrealized potential of information technology is to improve the foresight capability of the government. Foresight can be viewed as a component of decision support that involves monitoring and analyzing key longer term trends and their implications for government policies and programs. The combination of computer modeling, electronic data collection, and various decision analytic techniques used in a decision conference format may be an effective technical approach to improve governmentwide foresight capability, when coupled with institutional mechanisms that cut across agency and disciplinary lines. OTA identified several possible actions to help accomplish the latter, ranging from: bringing foresight into the scope of information resources management, to including foresight functions as part of agency decision support centers, to establishing separate foresight offices organized by agency or by subject matter, and to setting up a governmentwide foresight office that would pull together key trends information from the various agencies (as envisioned in S. 1031, the Critical Trends Assessment Act of 1985).

MANAGEMENT OF GOVERNMENT INFORMATION DISSEMINATION

Information technology holds out the promise of faster, cheaper, and more efficient collection (e.g., through computer-aided surveys and document filings), maintenance (e.g., in computerized databases and optical disks), and dissemination of government information (e.g. via electronic mail, interactive data networks, electronic bulletin boards, remote printing-on-demand, and computer tape exchange). OTA's preliminary research in this area suggests that the Federal Government is at or near the threshold of a major shift toward greater use of information technology for managing government information. These technologies could revolutionize the public information functions of the government.

At the same time, because government information is vital to so many users—in and outside of government—and central to numerous public laws and agency missions, the impending shift is raising a wide range of policy issues. The issues are complicated because of perceived tensions between:

- public access and the public's right to know (as embodied in the Freedom of Information Act) and the role of Federal agencies in actively disseminating public information (as mandated in the Public Printing Act and numerous authorizing statutes);
- management efficiency and cost reduction (per OMB circulars, the Deficit Reduction Act, and, to some extent, the Paperwork Reduction Act); and
- particularly for scientific and technical information, national security and foreign trade concerns.

OTA concluded that further research in this area is warranted, but that, ultimately, Congress is likely to be called on to update existing public information laws and address a variety of trends and issues such as:

- reduction of paperwork and publications;
- increasing use of electronic dissemination;
- cost-effectiveness of electronic information options;
- equity of access to government electronic information;
- private sector role in Federal electronic information activities;
- institutional responsibility for government information collection, dissemination, policy, and operations;
- need for a public information index or clearinghouse;
- mechanisms for exchange of learning and innovation;
- Freedom of Information Act implementation;
- electronic recordkeeping and archiving;
- scientific and technical information exchange; and
- other issues such as transborder information flow, depository library system, Federal statistical system, and copyright protection.

INFORMATION TECHNOLOGY AND CONGRESSIONAL OVERSIGHT

This report focuses primarily on executive agency management and use of information technology, and congressional oversight thereof. The trends, issues, and options discussed are properly within the purview of congressional oversight of executive branch programs, activities, and implementation of public laws. However, information technology also has a potential role in the actual conduct of congressional oversight.

Congress as a whole has made great strides over the last 10 to 15 years in using information technology with respect to legislative information retrieval, constituent mail and correspondence management, and some administrative functions. However, the use of information technology for direct support of policymaking and oversight is just beginning.

OTA identified significant unrealized opportunities for congressional use of information technology in conducting oversight, and an apparent lack of clear strategy for such use. A similar situation exists at the State level, based on an OTA review of relevant activities in nine State legislatures (California, New York, Wisconsin, Minnesota, Florida, Washington, Texas, Virginia, and South Dakota).

Four specific opportunities identified by OTA include: 1) direct access by congressional committees and staff to agency electronic files; 2) use of computer-based modeling and decision support; 3) video- and computer-conferencing to augment committee and staff oversight activities; and 4) electronic tracking of agency and executive actions. Congress may wish to plan and conduct a series of pilot tests and demonstrations in each of these areas, in order to more accurately assess the benefits, costs, and problems.

The pilot test approach has worked in the past for new technological applications in Congress. Pilot tests of congressional oversight applications should be useful to help familiarize Members and staff with new applications, identify needs for training, and develop the best match or fit between a particular application and the needs of specific committees, Members, and staff. Also, while Congress has strong constitutional powers to oversee and obtain information from the executive branch, pilot tests would help familiarize the agencies with new applications, identify any needed adjustments, and generally seek approaches that minimize possible concerns about separation of powers and executive privilege.

IN CONCLUSION

OTA's assessment of Federal Government information technology has identified significant progress, problems, and opportunities for improvement in the management and use of this very important technology. Many of the needed improvements can and ultimately would have to be implemented by the executive branch itself. Congress can facilitate and encourage appropriate actions through effective oversight and, where necessary, legislative remedies.

Chapters 2 through 8 of this report provide technical and policy analyses relevant to proposed legislation and policy initiatives on information technology management, including legislation on information systems security and computer crime noted earlier, possible amendments to the Paperwork Reduction Act and Public Printing Act, and governmentwide management initiatives such as the "Government Management Report Act of 1986."

Appendix A to this report briefly discusses other related issues that warrant congressional attention, but are outside the primary focus of this document. Appendix B describes the methodology of and respondents to OTA's Federal Agency Data Request. Appendix C lists the OTA contractor papers relevant to this report. Appendix D lists outside reviewers and contributors.

Chairman ROTH. The committee is in recess.

[Whereupon, at 11:51 a.m., the committee was recessed, subject to the call of the Chair.]

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